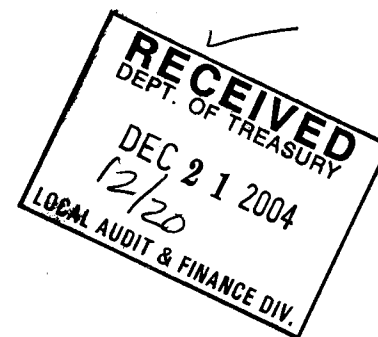




City of Ann Arbor, Michigan

81-2010

Comprehensive Annual Financial Report
Fiscal year Ended June 30, 2004



AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Ann Arbor, Michigan	County Washtenaw
Audit Date June 30, 2004	Opinion Date October 22, 2004	Date Accountant Report Submitted to State: December 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

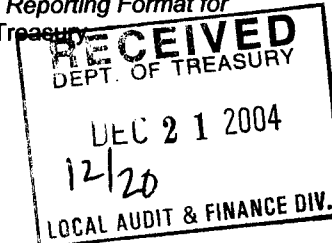
We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |



We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

CITY OF ANN ARBOR

COMPREHENSIVE ANNUAL FINANCIAL REPORT

County of Washtenaw
State of Michigan

Fiscal Year Ended June 30, 2004



Issued by:

Finance Department
100 N. Fifth Avenue
Ann Arbor, Michigan 48107
(734) 994-2730

CITY OF ANN ARBOR
COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2004

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CITY OF ANN ARBOR, MICHIGAN
100 North Fifth Avenue, P.O. Box 8647, Ann Arbor, Michigan 48107

October 22, 2004

**To the Honorable Mayor, Members of the City Council
And Citizens of the City of Ann Arbor**

The Comprehensive Annual Financial Report (CAFR) of the City of Ann Arbor for the year-end June 30, 2004, is submitted. Staff in the Accounting Service Unit prepared the report, with assistance from the Pension System, Downtown Development Authority, Housing Commission and other City staff. The City has the responsibility for all disclosure and accuracy of material contained in this report.

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Ann Arbor for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the City of Ann Arbor. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

The CAFR is designed in a manner to assist and guide the reader in understanding its contents. The report consists of three sections:

- The Introductory Section includes the table of contents, this transmittal letter, the City's organizational chart, and a list of principal officials.
- The Financial Section includes the MD&A, the basic financial statements, required supplementary information and various other statements and schedules, as well as the independent accountants' report based on an audit of the basic financial statements.
- The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

The City of Ann Arbor was founded in 1824 and incorporated as a city in 1851. The City is located in the approximate center of Washtenaw County in the southeastern section of Michigan's lower peninsula. The City is approximately 28 square miles in area and serves as the County Seat. The City has an excellent public transportation system for its citizens and visitors to enjoy. The City is nationally known for its outstanding educational and medical facilities, serving as the home of the University of Michigan.

The City operates under a Mayor/Council-Administrator type of government. The Council is comprised of the Mayor and ten Council Members. The City is divided into five wards, two Council Members are elected from each ward. The Council appoints a City Administrator to serve as the Chief Administrative Officer of the City responsible for daily operations. The organizational chart of the City is shown following the transmittal letter.

The component units discussed below are included in the City's financial reporting entity because of the significance of their operational or financial relationships with the City. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity,"* these financial statements present the City (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes financial accountability and whether the financial statements would be misleading if data were not included.

Blended Component Unit. The Ann Arbor Building Authority is presented as a blended component unit. Commissioners of the Authority are appointed by the Mayor and confirmed by City Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to issue revenue bonds to finance major capital construction by the City.

Discretely Presented Component Units. The Component Unit columns in the government-wide financial statements include the financial data of the City's other Component Units. They are reported in separate columns to emphasize that they are legally separate from the City. The following Component Units are included in the reporting entity because the primary government is financially accountable and is able to impose its will on the organization.

Downtown Development Authority (DDA). The DDA was created to finance rehabilitation and redevelopment in the downtown area. Commissioners of the DDA are appointed by the Mayor and approved by City Council. Development plans are approved by Council and Council must approve all modifications to the plan. The City maintains some accounting and payroll records for the DDA, whose primary source of funding is from Tax Increment Financing revenues. Bonds secured by those revenues are issued by the City on behalf of the DDA, which does not have the ability to issue debt.

Ann Arbor Housing Commission. The Housing Commission was created to provide low-income housing for City residents. Commissioners of the Housing Commission are appointed by the Mayor and approved by City Council. City Council is notified of all grant applications and any changes to contracts with the Department of Housing and Urban Development, the Commission's primary funding source. The Commission maintains its own accounting records and bank accounts. The City provides limited, special purpose financial support to the Commission, subject to request and Council approval, and is contingently liable for its debt.

The City is responsible for managing and financing many of the services for its citizens. The service areas include: Community Services, Financial Services, Safety Services, and Public Services.

FACTORS AFFECTING FINANCIAL CONDITIONS

The information presented in the financial statements should be considered on a broad perspective within the specific environment of the City.

Local Economy

The City remains in good financial condition, as is demonstrated by the financial statements and schedules included in this report. The assessed value of the taxable property (2003) increased by 4.2% over the 2002 valuation. The City provides a full range of services including: police, fire, refuse collection and disposal, recycling collection and processing, recreation, social services by contract, public improvements, planning and zoning, and general administrative services. These services are enjoyed by the citizens and transients of the City. Ann Arbor was recognized in *Money Magazine* as the 11th best place to live. The City is surrounded by three higher educational centers 1) The University of Michigan, 2) Concordia College, and 3) Cleary College. Additionally, located within a 10-mile radius are two other higher educational centers. Over 69% of the residents have completed four or more years of college.

The City of Ann Arbor has the largest population base in Washtenaw County and serves as the County Seat. The 2000 Census identified 114,061 residents in Ann Arbor, representing 35% of the population base in Washtenaw County. The median household income of our citizens is \$71,293. Personal income in the City has risen in recent years, which is an indication of a healthy economy.

The City is endowed with several major corporations located within its boundaries. During the fiscal year 2001-02, the City made a major commitment to Pfizer Pharmaceutical Company by granting a five-year industrial facility tax exemption on personal property and 12 years on real property. The City anticipates that Pfizer's expansion will further stimulate the economy. In addition, Ann Arbor is home to one of the largest employers in the County, the University of Michigan, that employs 23,044 people. Ann Arbor is also known for its excellent technology infrastructure that has attracted several large technology firms to the area.

Ann Arbor is accessible by three major Interstate highways connecting Detroit to the east, Chicago to the west, the Upper Peninsula to the north, and Ohio to the south.

Budget Process

The City Administrator is required by City Charter to prepare and submit an annual budget to City Council. This budget is prepared on the modified accrual basis and is adopted by City Council as required by the State of Michigan. Budgetary control is maintained at the service area level for the General Fund. The City Administrator is authorized to transfer budgeted amounts within the General Fund service areas. Budgetary control for all other funds is maintained at the fund level. Revisions to a service area total of the General Fund or to the fund total must be approved by City Council.

Long-term Financial Planning

The City Council and City Administrator are committed to strategies designed to ensure the long-term financial health of the City. Facing legal and political limits on the amount of property taxes that can be levied in Ann Arbor, the City Council provided the newly hired administrator with instructions to improve upon the cost reduction steps that began with the 2001-2002 budget cycle. From a high of 1,024 full-time equivalent (FTE) positions approved in the 1999-2000 budget, the current year fiscal plan includes only 840 FTE positions. Timely execution of current plans will have a new, centralized maintenance facility on-line in 2005 and a new or substantially remodeled city hall in place by 2008.

Reductions in staffing levels are accompanied by certain reorganizations designed to maintain the City's long-standing commitment to outstanding customer service. Employee teams have been working to identify strategies that will help assure quality and consistency in the service provided. Significant new leadership training programs have been implemented early in 2003.

The long-term financial health of the City will benefit from our dramatically improved ability to live within the existing financial resources while finally implementing significant portions of our long-term capital plan.

Cash Management Policies and Practices

Cash balances are invested according to the City's investment policy and State law. Certain cash balances are pooled in an investment fund. The cash resources of the Pension Trust Fund and certain other funds are invested separately. Short-term investments are generally restricted to: 1) certificates of deposit; 2) commercial paper of corporations rated A-1 and P-1; 3) U.S. Treasury bills; and 4) savings accounts. U.S. Treasury notes are usually purchased with cash available for longer periods of time. Maturities are intended to correspond with cash flow needs.

For fiscal year 2004, the accounting return on investments (realized and accrued income and gains plus accretion and amortization of premiums and discounts) on the pooled investment portfolio was 1.16%. The market rate of return (which reflects market adjustments) was 0.12%.

Risk Management

As permitted by State law, the City is self-insured (up to certain limits) for employee medical expenses, workers' compensation, unemployment claims, general liability, and property damage. Funding for claims and insurance is provided through an Internal Service Insurance Fund. This fund receives revenues from the operating accounts. The City contracts with several insurance providers to administer the medical program for its employees.

Pension and Other Post-employment Benefits

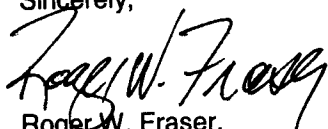
The City provides a defined benefit pension plan and post-employment healthcare benefit plan for all permanent employees. The pension system is administered by City staff and a seven member Trustee Board. The net assets of the defined benefit pension plan on June 30, 2004 were \$376,166,173, and the post-employment healthcare plan was \$37,610,589. The annual actuarial valuations, applicable to the defined benefit pension plan, continue to reflect the plan is adequately funded at 110.5%.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Ann Arbor for its comprehensive annual financial report for the fiscal year ended June 30, 2003. To be awarded a certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards.

The City has been awarded this certificate annually since 1985. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Sincerely,

A handwritten signature in black ink, appearing to read "Roger W. Fraser". The signature is stylized with a large, sweeping initial "R" and a long, horizontal stroke extending to the right.

Roger W. Fraser,
City Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Ann Arbor,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF ANN ARBOR, MICHIGAN

John Hieftje, Mayor

Council Members

Jean Carlberg
Kim Groome
Marcia Higgins
Michael Reid
Wendy A. Woods

Christopher S. Easthope
Leigh Greden
Robert M. Johnson
Margie Teall
Joan Lowenstein

CITY ADMINISTRATOR

Roger W. Fraser

CHIEF FINANCIAL OFFICER

Tom Crawford

CITY FINANCE DIRECTOR

Brenda L. Smith

CITY ASSOCIATE FINANCE DIRECTOR

Karen M. Lancaster

CITY TREASURER

Mary L. Siefert

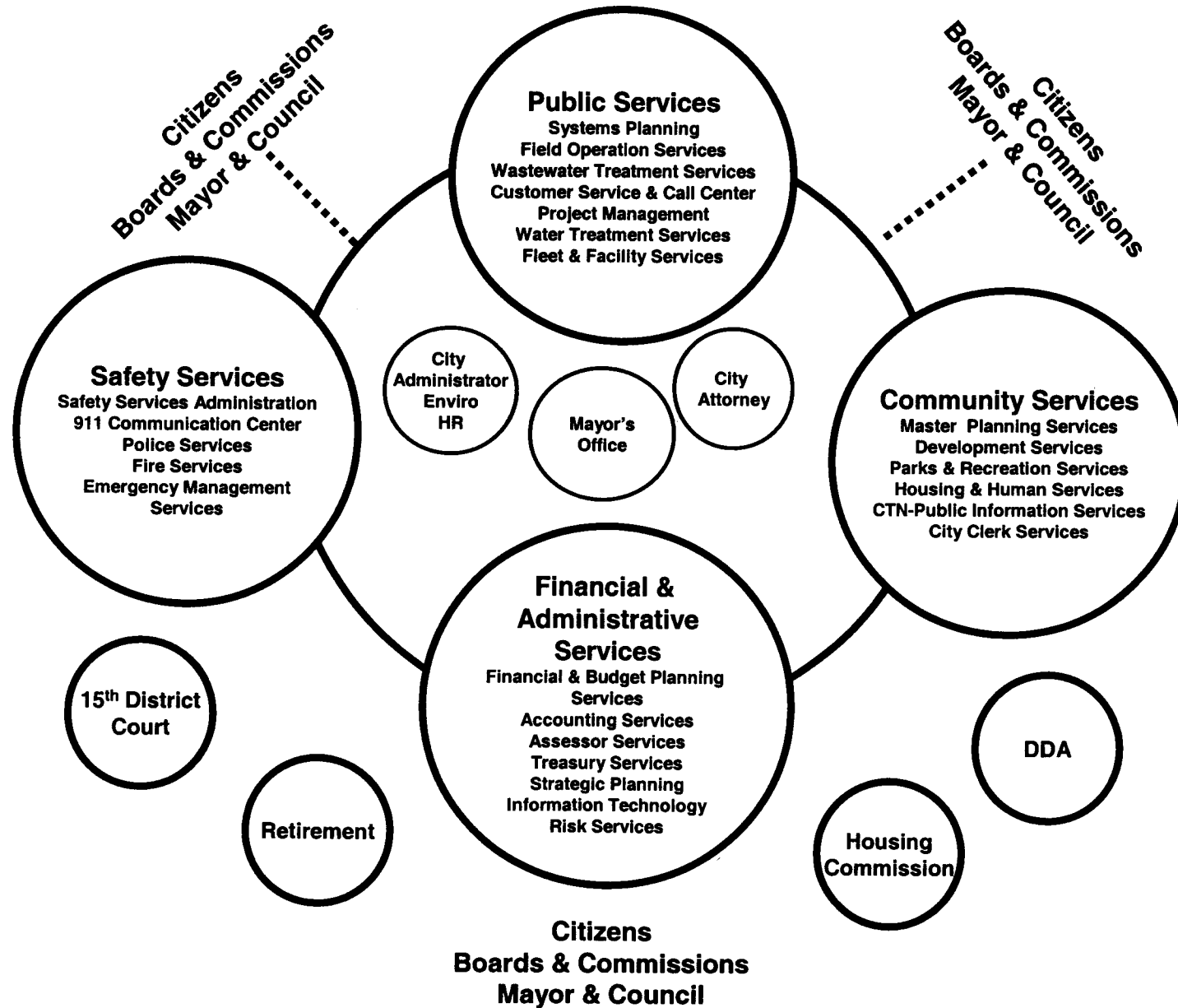
CITY ATTORNEY

Stephen K. Posterna

INTERIM CITY CLERK

Jayne Miller

City of Ann Arbor





REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

9



an independent member of

BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

October 22, 2004

Honorable Mayor and
Members of the City Council
City of Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ann Arbor, Michigan*, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ann Arbor's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Ann Arbor Housing Commission (a discretely presented component unit), which represents 35% and 32%, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report was furnished to us, and our opinion, insofar as it relates to the amounts included for the Ann Arbor Housing Commission discretely presented component unit, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ann Arbor, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2004, on our consideration of the City of Ann Arbor, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, in a separately issued single audit report. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the historical pension supplementary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ann Arbor's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Ann Arbor, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal years ended June 30, 2004 and June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-5 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceed its liabilities at the close of the most recent fiscal year by \$807,869,479. Of this amount, \$106,650,306 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$24,510,613 during the year.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$67,492,039, a decrease of \$1,422,091 in comparison with the prior year. The decrease in fund balance is primarily due to completion of various capital projects. Of the fund balance amount, \$52,682,180 is available for spending at the government's discretion (unreserved fund balance).
- The general fund recognized a gain of \$906,071. At the end of the current fiscal year, unreserved general fund balance was \$8,117,344, or 10.64 % of the total general fund expenditures. The total fund balance for the general fund was \$9,463,514.
- The City's total bonded debt increased by \$30,550,196, (new issues less retirements), during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements: 1) management discussion and analysis (this section), 2) government-wide financial statements, 3) fund financial statements, and 4) notes to the financial statements.

Government-wide Statements

The government-wide statements are designed to provide readers with an overview of the City's financial health as a whole, similar to those used in the private-sector companies. Two components of the government-wide statements include:

- The Statement of Net Assets is the difference between assets and liabilities, which can be used as an indicator of the City's financial health, or position. This statement includes all of the City assets and liabilities.
- The Statement of Activities provides information about the City activities as a whole, as it relates to the City's revenues and expenses. The statement of activities accounts for revenues and expenses when they occur, regardless of when cash is received or paid. This statement indicates whether the City's revenues exceed its expenses, which is another way to monitor the overall health of the City.

The Statement of Net Assets and the Statement of Activities, contain information in the following three categories:

- **Governmental activities** - All of the City's basic services such as police, fire, public works, and general administration are included in governmental activities. Property taxes, fees and charges, state shared revenues, and state and federal grants finance most of these activities.
- **Business-type activities** - The City assesses fees and charges to cover the cost of services provided in these business-type activities. Business-type activity areas include water and sewer systems, parking facilities, golf courses, and an airport.
- **Component units** - Included in the component units for the City are the Downtown Development Authority and the Ann Arbor Housing Commission. Although the Downtown Development Authority and the Ann Arbor Housing Commission are separate legal entities, the City is financially accountable for them. The Housing Commission provides low-income housing to City residents. The City provides limited, special purpose financial support to the Commission and is contingently liable for its debt.

The government-wide statements can be located on pages 22-24 of this report.

Fund Financial Statements. The fund financial statements provide detailed information about the City's most significant funds, not the City as a whole. The City uses the fund financial statements to account for specific funding sources and its spending patterns. Some funds are required to be established by State law and by bond covenants. The City Council establishes other funds to control and manage funds for particular purposes or to show it complies with legal requirements. The fund financial statements are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Most of the City's basic services are reported in the governmental funds, which focus on how cash flows in and out of those funds and its balances at year-end that are available for spending/reserve purposes. The governmental funds provide a detailed short-term view of the City's general operations and the basic services it provides. In addition, it assists management in the assessment of whether there are more or fewer resources, which can be spent on future City programs.

Because the focus of governmental funds is narrower than that of governmental-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains thirty-five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and street repair millage funds. Data from the other thirty-three governmental funds are combined in a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be located on pages 25-30 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary funds. The City maintains twelve different proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, storm and sanitary sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its central stores; fleet services; park services headquarters; and insurance funds. Because internal funds benefit predominantly governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sanitary sewer operations, parking system, market, golf courses, airport, stormwater system, and hydroelectric power system funds, each of which are considered major funds of the City.

The basic proprietary fund financial statements can be located on pages 31-35 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City is the trustee, or fiduciary, for certain assets held on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary fund combining statement information is contained in the combining section of the CAFR.

The basic fiduciary fund financial statements can be located on pages 36-37 of this report.

Additional Information

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 38-61 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to the major fund budgetary comparisons and a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 62-71 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be located on pages 72-98 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The government-wide financial analysis focuses on the net assets and changes in net assets of the City's governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As the following table demonstrates, the City's assets exceeded its liabilities by \$807,869,479 at June 30, 2004 versus \$783,358,866 at June 30, 2003.

City of Ann Arbor
Net Assets
Comparative Schedule- June 30, 2004 and 2003

	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	Governmental		Business-type		Total	
	Activities		Activities			
Current and other assets	\$93,526,826	\$90,666,934	\$82,133,444	\$48,657,697	\$175,660,270	\$139,324,631
Capital assets	623,659,827	607,773,839	176,526,151	174,120,511	800,185,978	781,894,350
Total assets	717,186,653	698,440,773	258,659,595	222,778,208	975,846,248	921,218,981
Long-term liabilities outstanding	36,067,294	34,600,172	104,622,198	73,833,777	140,689,492	108,433,949
Other liabilities	15,625,948	18,441,653	11,661,329	10,984,513	27,287,277	29,426,166
Total liabilities	51,693,242	53,041,825	116,283,527	84,818,290	167,976,769	137,860,115
Net assets:						
Invested in capital assets, net						
of related debt	598,685,040	583,715,108	67,551,963	95,615,594	666,237,003	679,330,702
Restricted	18,488,574	19,772,929	16,493,596	13,049,290	34,982,170	32,822,219
Unrestricted	48,319,797	41,910,911	58,330,509	29,295,034	106,650,306	71,205,945
Total net assets	\$665,493,411	\$645,398,948	\$142,376,068	\$137,959,918	\$807,869,479	\$783,358,866

By far the largest portion of the City's net assets reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets at June 30, 2004 (\$34,982,170) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$106,650,306 may be used to meet the government's ongoing obligations to citizens and creditors. The increase in Restricted Net Assets from \$32,822,219 in 2003 to \$34,982,170 in 2004 is due to an increase in Restricted for Debt Service due to bond sales during 2003-2004. Certain items have been reclassified in the prior year.

Liabilities have increased significantly from 2003 to 2004 mainly due to the increase in bond indebtedness and accrued compensated absences. In addition, other liabilities have decreased from 2003 to 2004 due to a reduction in Estimated Claims Payable for the City's self-insurance program. The City experienced a change in the program and became fully insured for workers' compensation claims during 2003-2004.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Ann Arbor
Changes in Net Assets
Comparative Schedule for the Years Ended June 30, 2004 and 2003

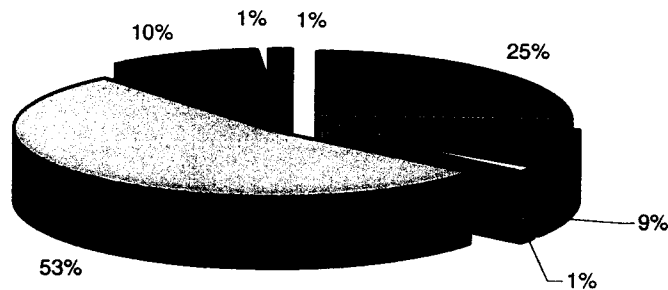
	2004	2003	2004	2003	2004	2003
	Governmental Activities		Business-type Activities		Total	
Revenue:						
Program revenue:						
Charges for services	\$30,498,519	\$23,092,945	\$40,702,661	\$41,370,394	\$71,201,180	\$64,463,339
Operating contributions and grants	10,608,459	21,132,464			10,608,459	21,132,464
Capital contributions and grants	1,806,735	893,925			1,806,735	893,925
General revenue:						
Property taxes	64,162,166	61,284,172			64,162,166	61,284,172
State shared revenues and grants	11,865,469	13,227,051			11,865,469	13,227,051
Investment income	907,722	2,495,814	304,132	1,083,726	1,211,854	3,579,540
Other	646,593	1,372,371		46,255	646,593	1,418,626
Total revenue	120,495,663	123,498,742	41,006,793	42,500,375	161,502,456	165,999,117
Expenses:						
Governmental activities:						
General government	20,832,703	18,911,586			20,832,703	18,911,586
Public safety	38,535,603	36,517,037			38,535,603	36,517,037
Highways and streets	9,788,021	8,807,135			9,788,021	8,807,135
Solid waste	6,940,330	7,106,296			6,940,330	7,106,296
Culture and recreation	9,190,992	11,586,697			9,190,992	11,586,697
Social services	2,026,806	2,705,147			2,026,806	2,705,147
Transportation (payment to AATA)	7,951,457	7,613,357			7,951,457	7,613,357
Community access television	1,029,326	959,968			1,029,326	959,968
Information services	377,976	1,766,646			377,976	1,766,646
Urban redevelopment and housing	1,882,128	1,499,422			1,882,128	1,499,422
Economic development	250,000	10,187,500			250,000	10,187,500
Unallocated depreciation	41,414	27,326			41,414	27,326
Interest on long-term debt	1,218,936	943,997			1,218,936	943,997
Business-type activities:						
Water			15,772,718	14,521,017	15,772,718	14,521,017
Sewer			14,102,932	13,665,415	14,102,932	13,665,415
Parking			2,478,172	2,630,276	2,478,172	2,630,276
Market			149,660	121,863	149,660	121,863
Golf courses			1,275,010	1,465,206	1,275,010	1,465,206
Airport			804,005	837,252	804,005	837,252
Stormwater			1,875,871	1,879,044	1,875,871	1,879,044
Hydropower			467,783	420,254	467,783	420,254
Total expenses	100,065,692	108,632,114	36,926,151	35,540,327	136,991,843	144,172,441
Increase in net assets before transfers	20,429,971	14,866,628	4,080,642	6,960,048	24,510,613	21,826,676
Transfers	(335,508)	1,623,844	335,508	(1,623,844)		
Increase in net assets	20,094,463	16,490,472	4,416,150	5,336,204	24,510,613	21,826,676
Net assets: beginning of year	645,398,948	628,908,476	137,959,918	132,623,714	783,358,866	761,532,190
Net assets: end of year	\$665,493,411	\$645,398,948	\$142,376,068	\$137,959,918	\$807,869,479	\$783,358,866

The City's net assets increased by \$24,510,613 during the current fiscal year and \$21,826,676 in the prior fiscal year.

Governmental activities. Governmental activities for the City's net assets increased by \$20,094,463, accounting for 82% of the total growth in the net assets of the City. During 2002-03, governmental activities increased by \$16,490,472 which is 76% of 2002-03 of the total growth. Key elements are as follows:

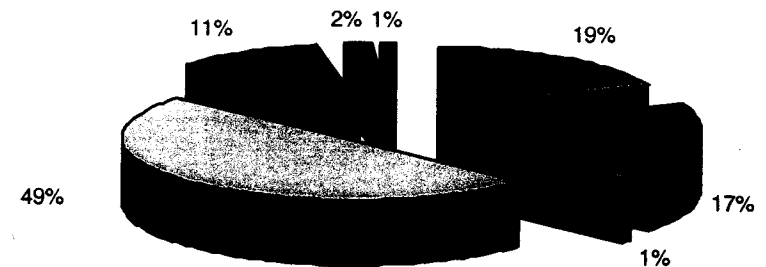
- Property taxes increased by approximately 4.7% in 2003-04 and 5.5% in 2002-03. Most of this increase is due to increased taxable values and residential growth.
- Intergovernmental revenue (which is a combination of operating contributions and grants and state-shared revenues and grants) decreased 34.9% from 2002-2003. This decrease is due to the receipt of a \$10,000,000 state grant in 2002-2003 for the development of a technology corridor in the City. The City passed through the funding (which is reflected in governmental activities expenses) as required by the grant agreement. State shared revenue, primarily sales and use tax and income tax, decreased 10.3% in 2003-04 due to reductions of revenue sharing at the State level. In 2002-03, these revenues decreased by approximately 8.9% during the year because of the reductions of revenue sharing at the State level.
- Charges for services increased by 32% in 2003-2004 primarily due to an increase in project closures in the General Fund for the Engineering department.
- Investment income decreased approximately 63% in 2003-04 and 32% in 2002-03, due in part to a lower volume of invested funds and due to a lower interest rate environment.

Revenues by Source - Governmental Activities-2004



■ Charges for services	■ Operating contributions and grants
□ Capital contributions and grants	□ Property taxes
■ State shared revenues and grants	■ Investment income
■ Other	

Revenues by Source - Governmental Activities-2003



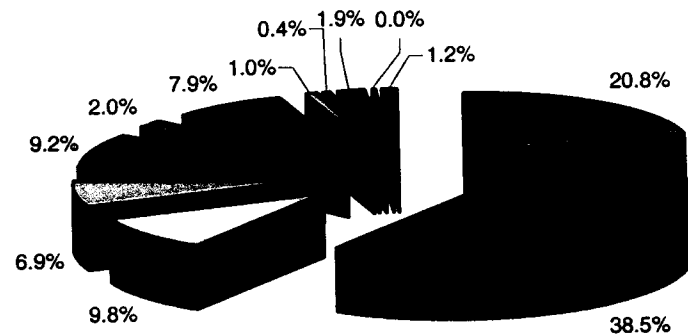
■ Charges for services	■ Operating contributions and grants
□ Capital contributions and grants	□ Property taxes
■ State shared revenues and grants	■ Investment income
■ Other	

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental activities' expenses. Expenses for governmental activities decreased \$8,566,422 from 2003 to 2004. Key elements are as follows:

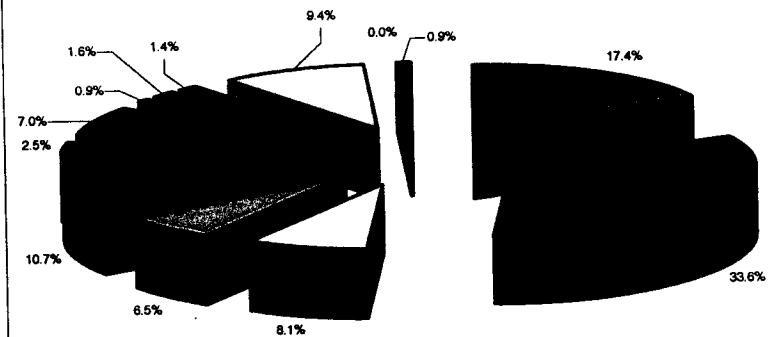
- The decrease in governmental activities' expenses was due primarily to the passthrough of the grant in 2002-2003 for the technology corridor as mentioned above. In the economic development activity, the City passed through \$10,000,000 from the State of Michigan.
- Public Safety expenses increased due to an increase in personnel costs and related employee fringe benefits.

Expenses by Function - Governmental Activities-2004



■ General government	■ Public safety
□ Highways and streets	□ Solid waste
■ Culture and recreation	■ Social services
■ Transportation	■ Community access TV
■ Information services	■ Urban redevelopment and housing
□ Economic development	■ Unallocated depreciation
■ Interest on long-term debt	

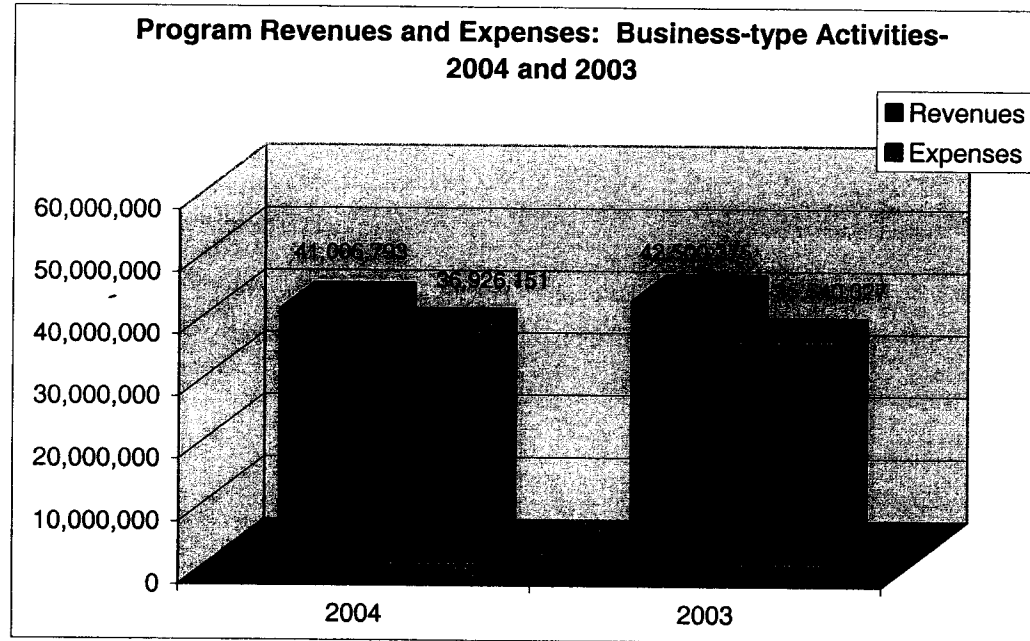
Expenses by Function - Governmental Activities-2003



■ General government	■ Public safety
□ Highways and streets	□ Solid waste
■ Culture and recreation	■ Social services
■ Transportation	■ Community access TV
■ Information services	■ Urban redevelopment and housing
□ Economic development	■ Unallocated depreciation
■ Interest on long-term debt	

Business-type activities. Business-type activities increased the City's net assets by \$4,416,150 for 2003-2004 and by \$5,336,204 for 2002-03, accounting for 18% and 24% of the total growth in the government's net assets for the current year and prior year, respectively. Key elements of this increase are as follows:

- Charges for services for business-type activities have decreased by \$736,282, or 1.8%, in the current year, primarily due to decreased water revenues. In 2002-03, charges for services decreased by \$3,928,240, or 8.7% compared to the prior year.
- Expenses increased \$1,385,324, or 3.9%, in 2003-2004 primarily due to increased salaries and health care costs. In 2002-2003, expenses remained relatively flat in growth from the prior year.
- Investment income decreased in 2003-2004 by 72% and by 32% compared to the prior fiscal year as a result of a lower interest rate environment.



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$67,492,039 at June 30, 2004 versus \$68,914,130 at June 30, 2003, a decrease of \$1,422,091 in 2003-2004 compared to an increase of \$9,598,386 in 2002-2003. Of that amount, \$52,682,180 at June 30, 2004 and \$53,000,585 at June 30, 2003 constitutes unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$8,117,344 at June 30, 2004 versus \$7,759,394 at June 30, 2003, while total fund balance was \$9,463,514 and \$8,557,443 at June 30, 2004 and 2003. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 10.64 percent at June 30, 2004 and 10.42 percent at June 30, 2003 of total general fund expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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The fund balance of the City's general fund increased by \$906,071 during the current fiscal year in comparison to an increase of \$940,029 during the prior fiscal year. This is primarily attributable to potential union contract settlement costs not spent during 2003-2004. In 2002-2003, there were some expenditure savings in the Solid Waste activity.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water, sanitary, storm sewer, hydroelectric power systems, parking system, market, golf courses, and airport, at the end of the year amounted to \$58,330,509. The market, sanitary, hydroelectric and stormwater systems, and parking system had an increase in net assets for the year of \$7,717,159, whereas, the golf course, airport and water funds had a decrease of \$3,301,009. Other factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final budgets for expenditures resulted in a 1.2% increase in 2003-04 compared to a 1.3% increase in 2002-03.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental/business-type activities as of June 30, 2004 was \$800,185,978 compared to \$781,894,350 at June 30, 2003 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery and equipment and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was 2.34% compared to less than 1% in 2002-2003. Major capital asset events during the fiscal year 2004 included a variety of street construction projects costing \$13,067,119.

City of Ann Arbor's Capital Assets (net of depreciation)

	2004	2003	2004	2003	2004	2003
	Governmental		Business-type		Total	
	Activities		Activities			
Land	\$23,564,333	\$18,574,234	\$6,776,491	\$6,776,491	\$30,340,824	\$25,350,725
Construction in progress	2,176,623	1,659,495	47,010,481	40,104,360	49,187,104	41,763,855
Buildings	27,377,289	23,872,729	78,703,556	78,703,556	106,080,845	102,576,285
Leasehold improvements	8,646				8,646	
Improvements other than buildings	3,037,454	1,879,523	131,100,919	127,899,088	134,138,373	129,778,611
Machinery and equipment	14,893,117	14,712,977	33,054,500	34,380,197	47,947,617	49,093,174
Vehicles	14,774,314	15,477,911	1,829,025	1,601,589	16,603,339	17,079,500
Infrastructure	650,091,504	646,621,880			650,091,504	646,621,880
Less: accumulated depreciation	(112,263,453)	(115,024,910)	(121,948,821)	(115,344,770)	(234,212,274)	(230,369,680)
Total capital assets net of depreciation	\$623,659,827	\$607,773,839	\$176,526,151	\$174,120,511	\$800,185,978	\$781,894,350

Additional information on the City's capital assets can be located in note 7 on pages 48-49 of this report

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$137,015,000. Of that amount, \$61,375,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Ann Arbor's Outstanding Debt

	2004	2003	2004	2003	2004	2003
	Governmental		Business-type		Total	
	Activities		Activities			
Capital Projects Bonds	\$14,515,000	\$16,180,000			\$14,515,000	\$16,180,000
General Obligation Portion						
of Special Assessment Bonds	1,025,000	1,150,000			1,025,000	1,150,000
General Obligation Portion						
of Special Revenue Bonds	3,925,000	4,000,000			3,925,000	4,000,000
General Obligation Portion						
of Special Revenue Bonds (DDA)	7,428,064	8,261,040			7,428,064	8,261,040
Special Assessment Bonds	1,930,000	2,335,000			1,930,000	2,335,000
Ann Arbor Building Authority Bonds			29,965,000	31,505,000	29,965,000	31,505,000
Other Bonds			2,586,936	3,268,960	2,586,936	3,268,960
Revenue Bonds			75,240,000	42,210,000	75,240,000	42,210,000
Lease Contracts Payable			400,000	800,000	400,000	800,000
Other Long-term Debt	3,644,150	460,250	782,271	720,956	4,426,421	1,181,206
Total outstanding debt	\$32,467,214	\$32,386,290	\$108,974,207	\$78,504,916	\$141,441,421	\$110,891,206

The City's total debt increased by \$30,550,196 or 27 percent during the fiscal year. The City issued new debt in the following category:

New Bonds

- 2004 Sewage Disposal System Series XIX \$27,170,000
- 2003 Water Supply System Series Y \$13,265,000
- 2004 Water Supply System Series Z \$ 9,765,000

The City has an AAA rating on these bonds from Standard & Poor's. Moody's rated these issues at an Aaa.

State statutes limit the amount of the general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$382,945,009, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be located in note 9 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for fiscal year 2004-05:

- Due to increased health care costs, the City restructured their health care program to a self-insurance program rather than HMOs. This change is expected to save the City \$850,000.
- The City eliminated 12 FTEs from the 2004-2005 budget.
- Property tax revenues are budgeted to increase 5 percent in 2004-05.
- Inflationary trends in the region compare favorably to national indices.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Finance Department, 100 North Fifth Avenue, P.O. box 8647, Ann Arbor, Michigan 48107-8647.

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
June 30, 2004

	Primary Government			Component Units -	
	Governmental Activities	Business-type Activities	Total	Ann Arbor Housing Commission	Downtown Development Authority
ASSETS					
Cash	\$7,934,454	\$4,978,927	\$12,913,381	\$1,899,484	\$417,491
Cash with fiscal agents		1,700,705	1,700,705		
Cash and cash equivalents, held at County of Washtenaw		209,122	209,122		
Equity in pooled cash and investments (Note 4)	70,756,588	40,307,763	111,064,351		8,947,653
Investments, at fair value (Note 4)	3,506,311	27,446,079	30,952,390		10,976,514
Receivables:					
Taxes	393,297		393,297		8,780
Accounts	4,286,021	6,807,536	11,093,557	196,307	400,847
Special assessments	951,411		951,411		
Accrued interest and dividends	28,543	46,446	74,989		
Improvement charges	5,095	380,385	385,480		
Loans	1,109,134		1,109,134		
Unbilled district costs	321,715		321,715		
Less: Allowance for uncollectibles	(845,223)	(86,253)	(931,476)		
Internal balances	1,260,374	(1,260,374)			
Due from component units (Note 5)	657,597		657,597		
Due from primary government (Note 5)					80,574
Due from other governments	822,958		822,958		
Prepaid items	1,349,087	9,609	1,358,696		
Deferred charges		1,200,806	1,200,806	31,069	36,315
Inventory, at cost	989,464	392,693	1,382,157	22,335	
Capital assets, at cost:					
Land	23,564,333	6,776,491	30,340,824	844,637	
Buildings	27,377,289	78,703,556	106,080,845	17,583,169	
Improvements other than buildings	3,037,454	131,100,919	134,138,373		
Leasehold improvements	8,646				
Machinery, equipment, and vehicles	14,893,117	33,054,500	47,947,617	412,063	
Vehicles	14,774,314	1,829,025	16,603,339		
Infrastructure	650,091,504		650,091,504		
Less: Accumulated depreciation	(112,263,453)	(121,948,821)	(234,212,274)	(9,833,226)	
Construction in progress	2,176,623	47,010,481	49,187,104		
Total Assets	717,186,653	258,659,595	975,846,248	11,155,838	20,868,174

(Continued)

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
June 30, 2004

	Primary Government			Component Units -	
	Governmental Activities	Business-type Activities	Total	Ann Arbor Housing Commission	Downtown Development Authority
LIABILITIES					
Liabilities:					
Accounts payable	\$4,188,376	\$2,168,069	\$6,356,445	\$219,746	\$1,516,233
Estimated claims payable (Note 11)	2,797,742		2,797,742		
Accrued liabilities	2,941,603	1,145,684	4,087,287	56,090	31,848
Accrued interest payable	353,822	1,217,443	1,571,265		138,548
Due to primary government (Note 5)				196,587	461,010
Due to component unit (Note 5)	80,574		80,574		
Due to other governments	526,639	1,133	527,772	291,318	920,387
Deposits	1,177,677	236,824	1,414,501	118,258	
Deferred revenue				15,103	
Non-current liabilities:					
Due within one year:					
Accrued compensated absences	1,043,415	179,032	1,222,447	96,142	
Bonds payable	2,420,000	6,151,386	8,571,386		1,028,614
Other debt payable	96,100	561,758	657,858		
Due in more than one year:					
Accrued compensated absences	13,608,607	2,361,154	15,969,761	30,309	
Bonds payable	18,910,637	101,640,550	120,551,187		6,399,450
Other debt payable	3,548,050	620,494	4,168,544		
Total Liabilities	51,693,242	116,283,527	167,976,769	1,023,553	10,496,090
NET ASSETS					
Invested in Capital Assets, net of related debt	598,685,040	67,551,963	666,237,003	9,006,643	
Restricted for:					
Capital Projects	14,549,739	9,780,092	24,329,831	100,000	
Debt Service	1,828,253	6,713,504	8,541,757		
Endowment	2,110,582		2,110,582		
Unrestricted	48,319,797	58,330,509	106,650,306	1,025,642	10,372,084
Total Net Assets	\$665,493,411	\$142,376,068	\$807,869,479	\$10,132,285	\$10,372,084

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Primary Government		Total	Ann Arbor Housing Commission	Downtown Development Authority
					Governmental Activities	Business-type Activities			
Primary Government:									
Governmental activities:									
General government	\$ 20,832,703	\$ 7,689,523	\$	\$	(\$13,143,180)	\$	(\$13,143,180)	\$	\$
Public safety	38,535,603	10,189,485	133,919		(28,212,199)		(28,212,199)		
Highways and streets	9,788,021	7,085,539	7,944,755		5,242,273		5,242,273		
Solid waste	6,940,330	409,617			(6,530,713)		(6,530,713)		
Culture and Recreation	9,190,992	2,650,541	386,130		(6,154,321)		(6,154,321)		
Social services	2,026,806	1,109,134	1,893,655		975,983		975,983		
Transportation (payment to AATA)	7,951,457	79,541			(7,871,916)		(7,871,916)		
Community access television	1,029,326	1,285,139			255,813		255,813		
Information services	377,976				(377,976)		(377,976)		
Urban redevelopment and housing	1,882,128				(1,882,128)		(1,882,128)		
Economic development	250,000		250,000		-		-		
Unallocated depreciation	41,414				(41,414)		(41,414)		
Interest on long-term debt	1,218,936			1,806,735	587,799		587,799		
Total governmental activities	100,065,692	30,498,519	10,608,459	1,806,735	(57,151,979)		(57,151,979)		
Business-type activities:									
Water	15,772,718	15,997,464				224,746	224,746		
Sewer	14,102,932	15,830,994				1,728,062	1,728,062		
Parking	2,478,172	3,691,597				1,213,425	1,213,425		
Market	149,660	151,244				1,584	1,584		
Golf courses	1,275,010	1,172,313				(102,697)	(102,697)		
Airport	804,005	716,242				(87,763)	(87,763)		
Stormwater	1,875,871	2,881,077				1,005,206	1,005,206		
Hydropower	467,783	261,730				(206,053)	(206,053)		
Total business-type activities	36,926,151	40,702,661				3,776,510	3,776,510		
Total primary government	\$ 136,991,843	\$ 71,201,180	\$ 10,608,459	\$ 1,806,735	\$ (57,151,979)	\$ 3,776,510	\$ (53,375,469)		
Component units:									
Housing Commission	\$13,542,307	\$775,164	\$12,483,195					(283,948)	
Downtown Development Authority	14,316,817	10,987,033							(3,329,784)
Total component units	\$27,859,124	\$11,762,197	\$12,483,195					(283,948)	(3,329,784)
General revenues:									
Taxes:									
Property taxes, levied for general purpose					56,035,123		56,035,123		3,189,976
Property taxes, levied for debt service					8,127,043		8,127,043		
State-shared revenues and grants					11,865,469		11,865,469		
Investment income					907,722	304,132	1,211,854	10,085	219,618
Other					646,593		646,593	102,628	51,900
Total general revenues					77,581,950	304,132	77,886,082	112,713	3,461,494
Transfers					(335,508)	335,508			
Total general revenues and transfers					77,246,442	639,640	77,886,082	112,713	3,461,494
Change in net assets					20,094,463	4,416,150	24,510,613	(171,235)	131,710
Net assets at beginning of year					645,398,948	137,959,918	783,358,866	10,303,520	10,240,374
Net assets at end of year					\$ 665,493,411	\$ 142,376,068	\$ 807,869,479	\$10,132,285	\$10,372,084

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

ASSETS	General	Street Repair Millage	Other Governmental Funds	Total Governmental Funds
Cash	\$4,648,113	\$159,337	\$2,907,223	\$7,714,673
Equity in pooled cash and investments (Note 4)	5,902,957	13,425,149	39,548,223	58,876,329
Investments, at fair value (Note 4)			3,506,311	3,506,311
Receivables:				
Taxes	317,732	36,350	39,215	393,297
Accounts	3,307,174	172,496	755,741	4,235,411
Special assessments			951,411	951,411
Accrued interest and dividends			28,543	28,543
Improvement charges			5,095	5,095
Loans			1,109,134	1,109,134
Unbilled district costs			321,715	321,715
Less: Allowance for uncollectibles	(649,547)	(73,882)	(90,877)	(814,306)
Due from other funds (Note 5)	2,248,552	14,091	221,412	2,484,055
Due from component units (Note 5)	536,749		120,810	657,559
Due from other governments	22,266		800,692	822,958
Prepaid items	87		3,265	3,352
Inventory, at cost	188,375			188,375
Total Assets	<u>\$16,522,458</u>	<u>\$13,733,541</u>	<u>\$50,227,913</u>	<u>\$80,483,912</u>

(Continued)

CITY OF ANN ARBOR
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General	Street Repair Millage	Other Governmental Funds	Total Governmental Funds
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$1,502,969	\$849,900	\$1,206,845	\$3,559,714
Accrued liabilities	2,548,522	48,520	259,584	2,856,626
Due to other funds (Note 5)	392,604	7,635	1,171,330	1,571,569
Due to component unit (Note 5)			80,574	80,574
Due to other governments	526,609		30	526,639
Deposits	1,153,488		24,189	1,177,677
Deferred revenue			2,201,794	2,201,794
Accrued compensated absences (Note 9)	934,752	471	82,057	1,017,280
Total Liabilities	7,058,944	906,526	5,026,403	12,991,873
Fund balances:				
Reserved for prepaid items	87		3,265	3,352
Reserved for encumbrances	307,708	5,501,716	2,726,002	8,535,426
Reserved for landfill			154,789	154,789
Reserved for endowment			2,110,582	2,110,582
Reserved for inventories	188,375			188,375
Reserved for building	850,000			850,000
Reserved for Material Recovery Facility equipment replacement			561,290	561,290
Reserved for recycling vehicle replacement			1,824,341	1,824,341
Reserved for Material Recovery Facility capital repair			125	125
Reserved for compost equipment			227,446	227,446
Reserved for radio equipment			89,751	89,751
Reserved for groundwater monitoring			264,382	264,382
Unreserved balances:				
Designated for subsequent year's expenditures	213,355			213,355
Undesignated	7,903,989	7,325,299		15,229,288
Undesignated, nonmajor capital projects funds			21,486,018	21,486,018
Undesignated, nonmajor debt service funds			1,828,253	1,828,253
Undesignated, nonmajor special revenue funds			13,925,266	13,925,266
Total Fund Balances	9,463,514	12,827,015	45,201,510	67,492,039
Total Liabilities and Fund Balances	\$16,522,458	\$13,733,541	\$50,227,913	\$80,483,912

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
GOVERNMENTAL FUNDS
RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Fund balances of governmental funds	\$ 67,492,039
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets have not been included as financial resources in governmental fund activity.	725,240,952
Depreciation of capital assets.	(104,747,092)
Long-term debt and compensated absences are not due and payable in the current period and therefore have not been included in the governmental funds.	
Bonds payable	(24,974,787)
Compensated absences	(13,333,354)
Accrued interest payable for the current portion of interest due on bonds has not been reported in the governmental funds.	(353,547)
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.	2,201,794
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.	13,967,406
Net assets of governmental activities	<u>\$ 665,493,411</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	General	Street Repair Millage Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$48,566,215	\$7,468,908	\$8,127,043	\$64,162,166
Special assessments/improvement charges			714,075	714,075
Licenses, permits and registrations	3,145,919			3,145,919
Federal grants	57,866		2,074,690	2,132,556
State shared revenues and grants	11,751,206	123,270	8,466,896	20,341,372
Charges for services	10,760,166	347,827	2,160,478	13,268,471
Fines and forfeits	5,041,599		437,979	5,479,578
Interest and penalties			95,095	95,095
Investment income	297,320	189,885	299,039	786,244
Rentals	7,356		102,299	109,655
Contributions and donations		107,876	290,335	398,211
Sale of property and equipment	20,504		28,967	49,471
Intra-governmental sales			526,340	526,340
Miscellaneous	507,388	8,062	131,143	646,593
Total Revenues	80,155,539	8,245,828	23,454,379	111,855,746
Expenditures:				
Current:				
Mayor and Council	206,922			206,922
Administration	553,982		2,647,391	3,201,373
Clerk/Elections	577,344			577,344
Planning	782,704			782,704
Law enforcement	22,047,912		561,990	22,609,902
Fire department	10,862,190			10,862,190
District court	3,321,845			3,321,845
Building department	2,467,960			2,467,960
Highways and streets		13,067,119	4,997,541	18,064,660
Social services	1,636,728			1,636,728
Parks and recreation	6,454,044		4,392,493	10,846,537
Historic district commission	60,091			60,091
Public transportation	7,951,457			7,951,457
Solid waste	6,363,071			6,363,071
Economic development			250,000	250,000
General government	13,027,850			13,027,850
Community access television			1,029,326	1,029,326
Urban redevelopment and housing			1,882,128	1,882,128
Information services			279,624	279,624
Capital outlay			7,216,099	7,216,099
Debt service:				
Principal retirement			2,556,100	2,556,100
Interest and fiscal charges			1,187,383	1,187,383
Total Expenditures	76,314,100	13,067,119	27,000,075	116,381,294
Excess of Revenues over (under) Expenditures	3,841,439	(4,821,291)	(3,545,696)	(4,525,548)

(Continued)

CITY OF ANN ARBOR
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2004

	<u>General</u>	<u>Street Repair Millage Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses):				
Transfers in	\$1,459,205	\$40,746	\$6,428,044	\$7,927,995
Transfers out	(4,394,573)		(3,929,965)	(8,324,538)
Note proceeds			3,500,000	3,500,000
Total Other Financing Sources (Uses)	<u>(2,935,368)</u>	<u>40,746</u>	<u>5,998,079</u>	<u>3,103,457</u>
Net change in fund balances	906,071	(4,780,545)	2,452,383	(1,422,091)
Fund Balances - July 1, 2003	<u>8,557,443</u>	<u>17,607,560</u>	<u>42,749,127</u>	<u>68,914,130</u>
Fund Balances - June 30, 2004	<u>\$9,463,514</u>	<u>\$12,827,015</u>	<u>\$45,201,510</u>	<u>\$67,492,039</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$ (1,422,091)
Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of revenue, expenditures, and changes in fund balances because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense.	26,405,729
Depreciation in the current period.	(6,955,946)
Governmental funds report revenue from sale of assets. However, an adjustment is needed to reflect loss on sale of capital assets	(2,978,410)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(3,500,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,556,100
Accrued Interest for Debt. This is the net change in accrued interest for the current period.	(27,978)
Amortization of bond discount is an expense on statement of activities	(2,155)
The changes in accrual for compensated absences expenses reported in the statement of activities require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(458,067)
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements.	2,201,794
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities.	<u>4,275,487</u>
Change in net assets of governmental activities	<u>\$ 20,094,463</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

Business-Type Activities
Enterprise Funds

ASSETS	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Total	Governmental Activities Internal Service Funds
Current Assets:										
Cash	\$2,537,478	\$1,368,175	\$621,306	\$85	\$195,427	\$26,801	\$228,442	\$1,213	\$4,978,927	\$219,781
Cash with fiscal agents		1,700,080	625						1,700,705	
Cash and cash equivalents, held at County of Washtenaw		209,122							209,122	
Equity in pooled cash and investments	5,999,762	29,444,884	1,022,685	461,879	35,862	189,889	1,479,196	1,673,506	40,307,783	11,880,259
Investments	6,525,081	19,501,669	1,418,329						27,446,079	
Receivables:										
Accounts	3,019,026	3,137,272	18,515	1,470	7,705	79,079	536,376	8,093	6,807,536	50,610
Improvement charges	138,766	224,191					17,428		380,385	
Interest receivable	4,001	41,299	1,146						46,446	
Less: Allowance for uncollectibles	(25,535)	(5,211)	(18,515)	(515)	(1,881)	(28,005)	(6,591)		(86,253)	(30,917)
Due from other funds	249,694	149,162	362	8,960	9,804	1,643	62,765		462,390	456,426
Due from component units										38
Prepaid items							9,609		9,609	1,345,735
Deferred charges	345,547	467,345	362,258		17,400		8,256		1,200,806	
Inventory, at cost	303,270	64,831			24,592				392,693	801,089
Total Current Assets	19,097,090	56,302,819	3,427,711	471,879	288,909	269,507	2,335,481	1,682,812	83,876,208	14,722,021
Capital assets, at cost:										
Land	412,830	339,582	4,522,293	84,120	693,739	708,927	15,000		6,776,491	194,707
Buildings	8,538,769	31,500,770	35,408,010	332,206	506,024	1,871,570		546,207	78,703,556	500,665
Improvements other than buildings	69,521,381	50,824,561	523,891		2,305,074	143,404	3,138,047	4,644,561	131,100,919	62,407
Machinery and equipment	9,270,554	22,351,029	172,578		789,302	256,306	214,731		33,054,500	2,226,680
Vehicles	686,901	685,118			27,617	56,041	373,348		1,829,025	7,697,669
Less: Accumulated depreciation	(31,078,599)	(69,465,108)	(13,551,873)	(127,892)	(1,237,345)	(1,991,856)	(560,468)	(3,907,680)	(121,948,621)	(7,516,361)
Construction in progress	9,444,100	11,397,206	25,234,458	19,700			742,478	172,539	47,010,481	
Net Capital Assets	66,797,936	47,633,158	52,309,357	308,134	3,084,411	1,044,392	3,893,136	1,455,627	176,526,151	3,185,967
Total Assets	85,895,026	103,935,977	55,737,068	780,013	3,373,320	1,313,899	6,228,617	3,138,439	260,402,359	17,907,988

(Continued)

CITY OF ANN ARBOR
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

Business-Type Activities
Enterprise Funds

	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Total	Governmental Activities Internal Service Funds
LIABILITIES										
Current Liabilities (payable from current assets):										
Accounts payable	\$1,049,231	\$996,143	\$14,855	\$6,308	\$7,124	\$16,796	\$10,586	\$67,026	\$2,168,069	\$628,662
Estimated claims payable										2,797,742
Accrued liabilities	886,496	161,369		2,859	45,982	17,823	30,261	1,094	1,145,684	84,977
Accrued interest payable	528,380	164,743	495,854		10,807		3,011	14,648	1,217,443	275
Due to other funds	242,141	137,062	139,830	64	1,110,332	212	111,311	1,812	1,742,764	107,538
Due to other governments				45	1,084	4			1,133	
Deposits	236,048					600	176		236,824	
Revenue bonds payable - current portion	2,665,000	1,125,000					115,000		3,905,000	
Lease contracts payable - current portion		400,000							400,000	
Ann Arbor Building Authority bonds payable - current portion			1,605,000		90,000				1,695,000	
Other bonds payable - current portion			341,386					210,000	551,386	
Other debt-current portion					39,154		122,604		161,758	
Accrued compensated absences	91,964	72,914		85	751	6,890	6,428		179,032	26,135
Total Current Liabilities (payable from current assets)	5,689,260	3,057,231	2,596,925	9,361	1,305,234	42,125	399,377	294,580	13,404,093	3,645,329
Long-Term Liabilities:										
Revenue bonds - non-current portion	37,195,000	33,600,000					540,000		71,335,000	
Ann Arbor Building Authority bonds payable - non-current portion			27,200,000		1,070,000				28,270,000	
Other bonds payable - non-current portion			1,405,550					630,000	2,035,550	
Other long-term debt - non-current portion					189,730		430,764		620,494	
Accrued compensated absence - non-current portion	1,281,406	812,571		3,361	73,099	107,612	83,105		2,361,154	275,253
Total Long-Term Liabilities	38,476,406	34,412,571	28,605,550	3,361	1,332,829	107,612	1,053,869	630,000	104,622,198	275,253
Total Liabilities	44,175,666	37,469,802	31,202,475	12,722	2,638,063	149,737	1,453,246	924,580	118,026,291	3,920,582
NET ASSETS										
Invested in Capital Assets, net of related debt	26,937,936	12,508,158	21,757,421	308,134	1,695,527	1,044,392	2,684,768	615,627	67,551,963	3,185,967
Restricted for debt service	3,986,000	2,692,004					65,500		6,713,504	
Restricted for equipment replacement	2,203,129	6,545,232					530,523	501,208	9,780,092	
Unrestricted (deficit)	8,592,295	44,750,781	2,777,172	459,157	(960,270)	119,770	1,494,580	1,097,024	58,330,509	10,801,439
TOTAL NET ASSETS	\$41,719,360	\$66,466,175	\$24,534,593	\$767,291	\$735,257	\$1,164,162	\$4,775,371	\$2,213,859	\$142,376,068	\$13,967,406

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds								Governmental Activities Internal Service Funds
	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Total
Operating Revenues:									
Charges for services	\$15,984,922	\$15,817,861	\$3,691,597	\$151,244	\$1,168,785	\$714,664	\$2,843,309	\$261,730	\$40,634,112
Miscellaneous revenue									
Total Operating Revenues	15,984,922	15,817,861	3,691,597	151,244	1,168,785	714,664	2,843,309	261,730	40,634,112
Operating Expenses:									
Personal services	5,432,873	3,808,550		54,822	652,046	455,316	563,916	22,999	10,990,522
Municipal service charge	847,177	799,425		12,912	88,491	47,453	92,329	17,637	1,905,424
Overhead charges from Water Supply System		1,025,472					565,870	21,748	1,613,090
Materials and supplies	1,469,501	853,188		8,550	141,734	32,634	182,880	2,310	2,690,797
Utilities	1,187,200	1,011,260		5,846	25,655	42,989	6,997	209	2,280,156
Insurance	385,045	355,348		2,607	37,021	55,798	58,991	12,196	907,006
Contractual services	446,497	1,082,817			3,220	31,774	56,751		1,621,059
Maintenance	284,466	188,418		5,379	29,391	32,315	12,437	57,608	610,014
Professional fees	781,817	1,220,247		40,098	27,652	8,682	69,149	38,448	2,186,103
Rent	230,745	473,618			40,419	41,253	69,156	1,079	856,270
Miscellaneous		86,100		11,124	12,948	11,861	13,081	1,067	136,181
Cost of goods sold									
Depreciation and amortization	2,764,604	2,674,224	899,041	8,322	117,713	43,920	104,068	246,390	6,858,282
Total Operating Expenses	13,829,925	13,578,667	899,041	149,660	1,176,290	804,005	1,795,625	421,691	32,654,904
Operating Income (Loss)	2,154,997	2,239,194	2,792,556	1,584	(7,505)	(89,341)	1,047,684	(159,961)	7,979,208
Nonoperating Revenues (Expenses):									
Interest income	120,342	121,126	33,633	1,847		2,788	16,109	8,287	304,132
Net gain on retirement of capital assets	12,542	13,133			3,528	1,578	37,768		68,549
Interest expense and fiscal charges	(1,589,674)	(496,469)	(1,579,131)		(87,752)		(80,246)	(46,092)	(3,879,364)
Lease charges in lieu of interest		(27,796)							(27,796)
Net loss on bond redemption	(353,119)				(10,968)				(364,087)
Total Nonoperating Revenues (Expenses)	(1,809,909)	(390,006)	(1,545,498)	1,847	(95,192)	4,366	(26,369)	(37,805)	(3,898,566)
Income (Loss) Before Transfers	345,088	1,849,188	1,247,058	3,431	(102,697)	(84,975)	1,021,315	(197,766)	4,080,642
Transfers in	393,459	3,646,202							
Transfers out	(3,848,999)	(30,862)			(220)	(2,665)	(81,000)	259,593	(3,963,746)
Net Transfers In (Out)	(3,455,540)	3,615,340			(220)	(2,665)	(81,000)	259,593	335,508
Changes in Net Assets	(3,110,452)	5,464,528	1,247,058	3,431	(102,917)	(87,640)	940,315	61,827	4,416,150
Net Assets - July 1, 2003	44,829,812	61,001,647	23,287,535	763,860	838,174	1,251,802	3,835,056	2,152,032	137,959,918
Net Assets - June 30, 2004	\$41,719,360	\$66,466,175	\$24,534,593	\$767,291	\$735,257	\$1,164,162	\$4,775,371	\$2,213,859	\$142,376,068

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds								Governmental Activities Internal Service Funds
	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Total
Cash flow from operations:									
Receipts from customers	\$15,765,237	\$15,445,029	\$4,032,834	\$152,164	\$1,170,423	\$724,046	\$2,844,723	\$290,970	\$40,425,426
Receipts from interfund services provided	223,281	137,062	139,830	64	268,517	212	110,130	1,812	880,908
Payments to suppliers	(5,884,780)	(7,003,794)	14,855	(114,725)	(421,884)	(352,305)	(1,157,896)	(86,335)	(15,016,864)
Payments to employees	(4,235,846)	(3,601,587)	(2,044)	(54,166)	(966,638)	(421,348)	(589,453)	(21,945)	(9,623,127)
Payments for interfund services used	(249,221)	(128,187)	(362)	(8,960)	(9,599)	(1,643)	(59,658)		(457,630)
Net cash provided by (used in) operating activities	5,608,571	4,848,523	4,185,113	(25,623)	310,819	(51,038)	1,147,846	184,502	16,208,713
Cash flows from noncapital financing activities:									
Transfers in	393,459	3,646,202						259,593	4,299,254
Transfers out	(3,848,999)	(30,862)			(220)	(2,665)	(81,000)		(3,963,746)
Net cash provided by (used in) noncapital financing activities	(3,455,540)	3,615,340			(220)	(2,665)	(81,000)	259,593	335,508
Cash flows from capital and related financial activities:									
Proceeds from sales of bonds and notes	9,201,881	27,170,000			54,032				36,425,913
Acquisition and construction of capital assets	(4,482,782)	(2,497,803)	(1,164,572)				(758,146)	(172,539)	(9,076,842)
Principal paid on revenue bonds, maturities, capital leases and notes	(2,470,000)	(1,515,000)	(2,007,024)		(82,078)		(232,604)	(210,000)	(6,516,706)
Interest paid on bonds, notes, and capital leases	(1,673,585)	(947,262)	(1,547,183)		(98,981)		(79,335)	(49,592)	(4,395,948)
Proceeds from sale of equipment	16,826	15,867			3,529	1,578	39,546		77,446
Net cash provided by investing activities	592,330	22,225,902	(4,718,779)		(123,498)	1,578	(1,031,539)	(432,131)	16,513,863
Cash flows from investing activities:									
Purchase of investment securities	(13,739,693)	(46,511,305)							(60,250,998)
Sale of investment securities	8,971,175	27,008,636	(12,778)						35,968,033
Interest and dividends on investments	143,612	79,827	32,487	1,847		2,788	16,109	8,287	284,957
Net cash provided by (used in) investing activities	(4,624,906)	(19,421,842)	19,709	1,847		2,788	16,109	8,287	(23,998,008)
Net increase (decrease) in cash and cash equivalents	(1,879,545)	11,267,923	(513,957)	(23,776)	187,101	(49,337)	51,416	20,251	9,060,076
Cash and cash equivalents at beginning of the year	10,416,785	21,454,338	2,158,573	485,740	44,188	266,127	1,656,222	1,654,468	38,136,441
Cash and cash equivalents at end of the year	\$ 8,537,240	\$ 32,722,261	\$ 1,644,616	\$ 461,964	\$ 231,289	\$ 216,790	\$ 1,707,638	\$ 1,674,719	\$ 47,196,517

(Continued)

CITY OF ANN ARBOR
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds								Governmental Activities Internal Service Funds
	Water Supply System	Sewage Disposal System	Parking System	Market	Golf Courses	Airport	Stormwater Sewer System	Hydroelectric Power System	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Net operating income (loss)	\$ 2,154,997	\$ 2,239,194	\$ 2,792,556	\$ 1,584	\$ (7,506)	\$ (89,341)	\$ 1,047,664	\$ (159,961)	\$ 7,979,208
Adjustments not affecting cash:									\$4,087,779
Depreciation and amortization	2,764,604	2,674,224	899,041	8,322	117,713	43,920	104,068	246,390	6,858,282
Allowance for uncollectible accounts	(12,935)	(2,902)	(143,587)	(289)	(802)	6,528	2,129		(151,858)
(Increase) decrease in assets and increase (decrease) in liabilities									2,328
Accounts receivable	(206,750)	(399,930)	484,824	1,209	2,440	2,854	(715)	29,240	(56,828)
Inventory	(60,799)	(14,897)			3,540				(72,156)
Prepaid items									
Accounts payable	(308,922)	108,424	14,855	(28,254)	(19,977)	(47,540)	(25,730)	65,967	(241,177)
Accrued compensated absences	492,558	175,081			(44,058)	31,848	(40,299)		615,130
Estimated claims payable									
Accrued liabilities	704,369	31,882	(2,044)	656	(534)	2,120	14,762	1,054	752,265
Due to other funds	223,281	137,062	139,830	64	268,517	212	110,130		880,908
Due from other funds	(249,221)	(128,187)	(362)	(8,960)	(9,599)	(1,643)	(59,658)		(457,630)
Due from component unit									
Due to component unit									
Due to other governments									
Deposits	107,389	(1,428)		45	1084	4			1,133
Net cash provided by (used in) operating activities	\$ 5,608,571	\$ 4,848,523	\$ 4,185,113	\$ (25,623)	\$ 310,819	\$ (51,038)	\$ 1,147,846	\$ 184,502	\$ 16,208,713
NONCASH CAPITAL FINANCING ACTIVITIES:									\$ 2,917,682

During the fiscal year, the City entered into a capital lease for equipment in the Golf Course Fund in the amount of \$195,977.

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
ALL FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2004

	Employees' Benefit Trust Funds	Agency Funds
ASSETS		
Cash	\$632,702	\$1,125,254
Equity in pooled cash and investments	1,568,853	
Investments, at fair value		
Short term investments	8,517,760	
U.S. Government obligations	60,089,644	
Municipal bonds	657,275	
Collateralized Mortgage Obligations	7,728,665	
Domestic corporate bonds	52,511,934	
Domestic stocks	258,337,533	
Real Estate-Direct & funds	26,064,854	
Accrued interest and dividends	1,738,325	
Due from other governments	631,109	
Property, plant & equipment (net of depreciation of \$9,381)	8,893	
Total Assets	<u>\$418,487,547</u>	<u>\$1,125,254</u>
LIABILITIES		
Liabilities:		
Accounts payable	\$4,710,785	\$716,410
Accrued liabilities		
Accrued compensated absences		329,237
Due to other governments		79,607
Deposits		
Total Liabilities	<u>4,710,785</u>	<u>\$1,125,254</u>
Net Assets:		
Held in Trust for Pension Benefits and Other Purposes	<u>\$413,776,762</u>	

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2004

ADDITIONS	Total Employee Retirement Funds
Investment income:	
Net realized and unrealized appreciation in fair value of investments	\$43,060,773
Interest	7,518,314
Dividends	1,417,617
Total investment income	51,996,704
Less investment expense	1,729,722
Net investment earnings	50,266,982
Contributions:	
Employer	7,803,872
Plan member	2,638,863
Total contributions	10,442,735
Total additions	60,709,717
DEDUCTIONS	
Benefits	20,616,839
Refund of contributions	952,348
Administrative expense	6,580,456
Total deductions	28,149,643
Change in net assets	32,560,074
Net assets held in trust for benefits at beginning of year	381,216,688
Net assets held in trust for benefits at end of year	\$413,776,762

The accompanying notes are an integral part of the financial statements.

CITY OF ANN ARBOR

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

1. FINANCIAL REPORTING ENTITY

The City of Ann Arbor, Michigan (the City) was incorporated in 1851. On April 9, 1956, a City Charter (home rule) was ratified by electors in accordance with Michigan law. The City operates under a Council-Administrator form of government and provides the following services as authorized by its charter: public safety (police, fire, and building inspection), traffic control and street maintenance, refuse collection, water and wastewater, parks and recreation, public improvements, planning and zoning, airport, urban redevelopment and housing, golf courses, and general administrative services. The City's population is approximately 114,061 people within an area of 28.6 square miles. The component units discussed below are included in the City's financial reporting entity because of the significance of their operational or financial relationships with the City. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," these financial statements present the City (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes financial accountability and whether the financial statements would be misleading if data were not included.

Blended Component Unit. The Ann Arbor Building Authority is presented as a blended component unit. Commissioners of the Authority are appointed by the Mayor and confirmed by City Council. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole purpose is to issue revenue bonds to finance major capital construction by the City.

Discretely Presented Component Units. The Component Unit columns in the government-wide financial statements include the financial data of the City's other Component Units. They are reported in separate columns to emphasize that they are legally separate from the City. The following Component Units are included in the reporting entity because the primary government is financially accountable and is able to impose its will on the organization.

Downtown Development Authority (DDA). The DDA was created to finance rehabilitation and redevelopment in the downtown area. Commissioners of the DDA are appointed by the Mayor and approved by City Council. Development plans are approved by Council and Council must approve all modifications to the plan. The City maintains all accounting records for the DDA, whose primary source of funding is from Tax Increment Financing revenues. Bonds secured by those revenues are issued by the City on behalf of the DDA, which does not have the ability to issue debt.

Ann Arbor Housing Commission. The Housing Commission was created to provide low-income housing for City residents. Commissioners of the Housing Commission are appointed by the Mayor and approved by City Council. City Council is notified of all grant applications and any changes to contracts with the Department of Housing and Urban Development, the Commission's primary funding source. The Commission maintains its own accounting records and bank accounts. The City provides limited, special purpose financial support to the Commission, subject to request and Council approval, and is contingently liable for its debt.

NOTES TO FINANCIAL STATEMENTS (Continued)

1. FINANCIAL REPORTING ENTITY (Concluded)

Separate combining statements for the discretely presented Component Units are not presented as each Component Unit is shown as a separate column on the government wide financial statements. Complete financial statements of the individual Component Units can be requested from the City of Ann Arbor Finance Department.

Related Organizations. The Ann Arbor Transportation Authority (AATA) and the Ann Arbor Economic Development Corporation (EDC), are not included in the financial reporting entity. The members of the governing board of each are appointed by the Mayor and confirmed by the City Council, but the City's accountability for these organizations does not extend beyond making the appointments. The EDC, whose purpose is to foster business development within the City, and which has issued bonds bearing the City's tax-exempt status (for which the City is not contingently liable), had, as of June 30, 2004, assets and a fund balance of \$101,557.

2. DESCRIPTION OF CITY OPERATIONS AND FUND TYPES

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental Accounting Standards Board Statement #34, (hereafter known as GASB #34) sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section. The City reports the following major funds:

Governmental Funds.

General Fund. This fund is the general operating fund of the City; it is used to account for all financial resources not required to be accounted for in another fund.
Street Repair Millage Fund. This fund is used to account for the proceeds of the street repair millage.

Proprietary Funds.

Water Supply System - To account for the provision of treated water of the City and some township residents.
Sewage Disposal System - To account for the collection and treatment of the sewage of the City and some township residents.
Parking System - To account for the operations of the City's parking structures, lots and meters.
Market - To account for the costs of operating the City's Farmers' Market.
Golf Courses - To account for the operation of the City's two 18-hole golf courses.
Airport - To account for the operation of the City's airport including the rental of hangars and tie-down space.
Stormwater Sewer System - To account for the collection and disposal of the City's stormwater.
Hydroelectric Power System - To account for sale of power from two City power generation dams.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. DESCRIPTION OF CITY OPERATIONS AND FUND TYPES (Concluded)

Non-Current Governmental Assets/Liabilities: GASB Statement #34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the governmental activities column in the government-wide Statement of Net Assets.

Other Fund Types:

Internal Service Funds. These funds are used to account for goods or services provided by the Central Stores, Fleet Services, Insurance, or Park Headquarters to departments of the City, or to other governments, on a cost-reimbursement basis.

Employee Retirement/Benefits Funds. To account for the accumulation of resources to be used for retirement pension and annuity payments. Resources are contributed by employees at rates fixed by law and by the City at amounts determined by an annual actuarial study.

Permanent Fund. To account for monies provided by a private bequest to finance tree planting and maintenance for the Elizabeth Dean Fund. The principal amount of the bequest is to remain intact and invested. Investment earnings are used for the above stated purposes.

Agency Funds. These funds are used to account for assets held by the City as an agent for individuals, private organizations, or other governments. Agency fund are, by nature, custodial; therefore, operation results are not measured. Such funds include: Current Tax, Delinquent Tax, Contractor's Retainage and Fifteenth District Court.

3. SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements. The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial reporting model the focus is on either the City as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net costs per functional category (Police, Fire, Public Services, etc.), which are otherwise being supported by general government revenues (property taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function (Police, Fire, Public Services, etc.) or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Amounts reported as program revenue include 1) charges for services, 2) federal and state operating grants, and 3) special assessments.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The net cost (by function or business-type activity) is normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.). Historically, the previous financial reporting model did not summarize or present net cost by function or activity.

The City does not currently employ an indirect cost allocation system. An administrative service fee is charged by the General Fund to the other operating funds, that is eliminated like a reimbursement (reducing the revenue and expense in the General Fund), to address administrative services (finance, personnel, purchasing, legal, technology management, etc.) provided.

This government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in either the governmental or business-type categories. Non-major funds (by category) are summarized into a single column.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental activities column of the government-wide presentation.

Internal service funds of the City (which provide services primarily to other funds of the City) are presented, in summary form, as part of the proprietary fund financial statement. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity (Police, Fire, Public Services, etc.).

When appropriate, surplus or deficits in the Internal Service funds may be allocated back to customers at the entity-wide Statement of Activities. This creates a reconciling item between the business-type activities column and the Proprietary Funds fund level statements as reflected on the bottom of each statement.

The City's' fiduciary funds (which have been redefined and narrowed in scope) are presented in the fund financial statements by type (pension and agency). Since, by definition, these assets are being held for the benefit of a third party (other legal governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus of the Statement #34 model is on the City as a whole and the fund financial statements. The focus of the Fund Financial Statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary presentation, and the statements provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting. The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). *Measurable* means the amount of the transaction can be determined and *available* means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Major sources of revenue considered susceptible to accrual are community development grants, state shared revenues and grants, delinquent property taxes collected during the fiscal year or within a period of 60 days thereafter, and interest on investments.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. The government-wide financial statements and the proprietary, fiduciary and component unit financial statements are presented on an accrual basis of accounting. The governmental funds in the fund financial statements are presented on a modified accrual basis.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33 (the City may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met, should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

The City reports deferred revenue on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received before qualifying expenditures are incurred. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

The measurement focus of the governmental funds is based on determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than net income determination.

The Enterprise and Fiduciary Funds are maintained on the accrual basis. These Funds' revenues are recognized when earned, and expenses recorded when incurred. Unbilled Water and Sewer Fund utility service provided is recorded as receivables and revenue at year-end. The measurement focus for enterprise funds is based on cost of service and maintenance of capital. Enterprise funds follow Generally Accepted Accounting Principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board standards issued prior to November 30, 1989. The City also has the option of following subsequent private-sector guidance for business-type activities and enterprise funds to the extent that the guidance does not contradict guidance of the GASB. The City has elected not to follow subsequent private-sector guidance. In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved "Basic Financial Statements and Management Discussion and analysis for State and Local Governments" (Statement #34). This Statement provides for the most significant change in financial reporting in over twenty years and is scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002 (for larger governments). As part of this Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc). This requirement permits an optional four-year further delay for implementation to the fiscal year ending in 2006. The City elected to implement the basic model and the infrastructure-related portion for the year ended June 30, 2002.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Accounting Controls. The City Administrator is required by City Charter to prepare and submit an annual budget to City Council. A budget is prepared for the General Fund, and Special Revenue Funds. These budgets are prepared on the modified accrual basis and are adopted by City Council as required by the State of Michigan. Budgetary control is maintained at the departmental level for the General Fund. The City Administrator is authorized to transfer budgeted amounts within the General Fund departments. Budgetary control for the Special Revenue Funds is maintained at the fund level. Revisions to a department total of the General Fund or to the fund total of a Special Revenue Fund must be approved by City Council; some supplemental budgetary appropriations, of immaterial size, were necessary during the fiscal year. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Any outstanding encumbrances are carried forward to the succeeding fiscal year. Enterprise, Internal Service, and Pension Trust Funds also have legally adopted budgets. Two Special Revenue Funds do not have legally adopted budgets – Police and Fire Relief, as it was formerly an Expendable Trust Fund and Michigan Economic Development Smart Zone grant fund as it was created as a pass-through to keep these monies separate from the General Fund.

Investments. Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Receivables and Payables. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Interfund balances at year-end relate to items accrued after year-end related to interfund transfers. These items are repaid immediately in the new year.

Inventories. Inventories of materials and supplies are stated at cost using the first-in, first-out method. The cost is accounted for as an expenditure in governmental funds and an expense in the proprietary funds at the time inventories are used.

Capital Assets. Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Type</u>	<u>Years</u>
Structures and improvements	40-50
Improvements other than buildings	20-99
Machinery, equipment and vehicles	3-15
Infrastructure	15-25

NOTES TO FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting (under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Compensated Absences. The City accrues vacation pay, compensatory time off, severance pay for sick leave, and any salary-related payments for these compensated absences in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. The current obligations of all funds and the long-term obligations of Proprietary Funds are recorded in the respective funds. City employees are granted vacation time based on length of service. Most employees have the option of receiving compensatory time off in lieu of pay for overtime worked up to 120 hours. Sick pay is earned at the rate of one day per month, and unused sick days may be accumulated without limitation. An employee is paid, in most cases, a maximum 960 unused sick hours and the total of any remaining accumulated hours upon retirement or death. City policy provides for payment of unused vacation and compensatory time off, but not unused sick hours, to terminated employees. The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. For all funds, the current portion is the amount estimated to be used in the following year. In accordance with GAAP, for the governmental funds, in the Fund Financial Statements, the non-current portion of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. In addition to the Proprietary Funds, the General Fund, and several nonmajor special revenue funds have been used to liquidate the liability for compensated absences.

Interfund Transactions. During the course of normal operations the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The basic financial statements generally record such transactions as operating transfers. Operating subsidies are also recorded as operating transfers. Internal Service Funds are used to record charges for services to all City departments and funds as operating revenue for the services provided. All City funds record payments to the Internal Service Funds as operating expenditures.

Certain funds remit payments for municipal service charges in lieu of taxes to the General Fund based on a pro rata share of general administrative overhead of the City government. Payments are recorded as revenue in the General Fund and as operating expense in Enterprise Funds.

Self Insurance. The City is self-insured for property, casualty, and employee benefit coverage. Costs of actual claims and estimated incurred but not reported claims, less any excess insurance coverage, are expensed in the Insurance Internal Service Fund at the time the liability is estimated.

Reserves and Designations. In the fund financial statements, reserves indicate portions of fund equity not appropriable for expenditures and/or legally segregated for a specific future use. Designations indicate tentative plans for financial resource utilization in a future period. Such plans are subject to change, and may never be legally authorized or result in expenditures. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Grants and Other Intergovernmental Revenues. Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Statements of Cash Flows. The City presents Statements of Cash Flows for all proprietary fund types. These statements, which have been prepared utilizing the *direct method*, analyze the net increase or decrease in cash/cash equivalents by source. For purposes of the statement of cash flows, the City considers all highly liquid investments purchased with an original maturity of three months or less and the deposits in the investment funds to be cash equivalents.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Operating Revenues and Expenses. Proprietary funds distinguish operating revenue and expenses from nonoperating revenue and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise and internal service funds include the cost of sales and service, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

4. EQUITY IN POOLED CASH AND INVESTMENTS

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the balance sheet as "Equity in Pooled Cash and Investments." The Consolidated Investment Fund is eliminated for financial reporting purposes. In addition, the cash resources of the Pension Trust Fund and certain other funds are invested separately.

Deposits. At year end, the carrying amount of the City's deposits was \$18,898,139 and the bank balance was \$17,507,189. Of the bank balance, \$301,384 was covered by federal depository insurance. The remaining \$17,205,805 was uninsured and uncollateralized.

Investments. Michigan statutes and City policy authorize the City to invest in obligations of the U. S. Treasury, where interest and principal are backed by the full faith and credit of the U.S. Government (including GNMA), commercial paper (rated at the time of purchase by at least two of the major rating agencies within one of their two highest ratings), bankers acceptances, repurchase agreements, bank investment pools and the State Treasurer's Investment Pool. Pension fund investment policy is governed by the Pension Trustees and makes additional allowances for investments in equities, long-term securities and other securities of relatively higher risk.

Portfolio Risk. Investments held at June 30, 2004 are categorized as follows to indicate the level of risk assumed by the City. Category one includes all investments insured, registered, or for which the securities are held by the City or its agent in the City's name. Category two includes all uninsured and unregistered investments for which the securities are held by the counterparty's trust department at a financial institution in the City's name. Category three includes all uninsured or unregistered investments for which the securities are held by the counterparty's broker or dealer, but not in the City's name.

NOTES TO FINANCIAL STATEMENTS (Continued)

4. EQUITY IN POOLED CASH AND INVESTMENTS (Concluded)

	Investments By Category			Fair Value
	1	2	3	
U. S. Government Agencies	\$78,334,692			\$78,334,692
U. S. Treasury Bonds & Notes	130,102,887			130,102,887
Corporate Bonds and Notes	52,511,934			52,511,934
Commercial Paper	3,797,949			3,797,949
Municipal Bonds	657,275			657,275
Repurchase Agreements	8,880,410			8,880,410
Stocks - Common	258,337,533			258,337,533
Partnerships and Joint Ventures	26,064,854			26,064,854
Collateralized Mortgage Obligations	7,728,665			7,728,665
Total	\$566,416,199	\$	\$	\$566,416,199
Mutual Funds - unclassified as to risk				11,001,227
Total Investments				<u>\$577,417,426</u>

Cash and investments are presented in the financial statements as follows:

	Cash	Investments	
		Equity in pooled cash and investments	Investments
Governmental activities	\$7,934,454	\$70,756,588	\$3,506,311
Business-type activities	6,888,754	40,307,763	27,446,079
Component units	2,316,975	8,947,653	10,976,514
Fiduciary funds	1,757,956	1,568,853	413,907,665
Totals	<u>\$18,898,139</u>	<u>\$121,580,857</u>	<u>\$455,836,569</u>

\$577,417,426

The Pension Trust Fund's investments represent approximately 73% of the total in category one, and 71% of the assets in mutual funds.

The Pension Trust Fund's investments and all other City investments are carried at fair value in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

NOTES TO FINANCIAL STATEMENTS (Continued)

5. INTERFUND RECEIVABLES AND PAYABLES

	Due From Other Funds	Due To Other Funds	Due From Component Unit/ Primary Government	Due To Component Unit/ Primary Government
Primary Government:				
General Fund	\$2,248,552	\$392,604	\$536,749	
Special Revenue Funds:				
Street Repair Millage	14,091	7,635		
Nonmajor funds	58,807	950,846	113,900	
Total Special Revenue Funds	72,898	958,481	113,900	
Debt Service Funds:				
Nonmajor Debt Service Funds	42,025	45,175	6,910	80,574
Capital Projects Funds:				
Nonmajor Capital Projects Funds	120,580	149,060		
Enterprise Funds				
Water Supply System	249,694	242,141		
Sewage Disposal System	149,162	137,062		
Parking System	362	139,830		
Market	8,960	64		
Golf Courses	9,804	1,110,332		
Airport	1,643	212		
Stormwater Sewer System	62,765	111,311		
Hydroelectric Power System		1,812		
Total Enterprise Funds	482,390	1,742,764		
Internal Service Funds	455,426	107,538	38	
Permanent Fund				
Elizabeth R. Dean Permanent Fund		26,249		
Total Primary Government	3,421,871	3,421,871	657,597	80,574
Component Units				
Downtown Development Authority			80,574	461,010
Ann Arbor Housing Commission				196,587
Total Component Units			80,574	657,597
Total All Funds and Component Units	\$3,421,871	\$3,421,871	\$738,171	\$738,171

NOTES TO FINANCIAL STATEMENTS (Continued)

6. PROPERTY TAXES

Each July 1st the City property tax is levied and becomes a lien on the related property, the value of which is equalized by the State of Michigan and limited by Act 415 of 1994. The City's operating tax rate levied July 1, 2003, as controlled by the Headlee Amendment, Act 415 and City Charter, is 6.0315 mills. Real and personal property located in the City as of December 31, 2002 were assessed and equalized at \$4,835,407,200, representing 50% of estimated current value. Act 415 of 1994 limits annual increases in taxable value to 5% or the Consumer Price Index, whichever is less. The 2003 taxable value on March 1, 2004 was \$3,830,305,840. Property taxes are due July 31st of each year and any delinquent real property taxes are turned over to Washtenaw County for collection the following March 1st. The County pays all its municipalities from a revolving fund for delinquent real property taxes. Delinquent personal property taxes are negligible.

7. CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance July 1, 2003	Additions	Retirements	Ending Balance June 30, 2004
Governmental Activities				
Non-Depreciable Assets:				
Land	\$18,574,234	4,990,099		\$23,564,333
Construction in progress	1,659,495	1,969,549	(1,452,421)	2,176,623
Depreciable Assets:				
Buildings	23,872,729	3,504,560		27,377,289
Leasehold improvements		8,646		8,646
Improvements other than buildings	1,879,523	1,157,931		3,037,454
Machinery and equipment	14,712,977	474,196	(294,056)	14,893,117
Vehicles	15,477,911	779,249	(1,482,846)	14,774,314
Infrastructure	646,621,880	14,032,119	(10,562,495)	650,091,504
Total at historical cost	722,798,749	26,916,349	(13,791,818)	735,923,280
Less accumulated depreciation for:				
Buildings	(8,953,043)	(620,578)		(9,573,621)
Improvements other than buildings	(295,111)	(54,839)		(349,950)
Equipment and vehicles	(20,069,049)	(2,786,247)	1,768,327	(21,086,969)
Infrastructure	(85,707,707)	(4,588,814)	9,043,608	(81,252,913)
Total accumulated depreciation	(115,024,910)	(8,050,478)	10,811,935	(112,263,453)
Governmental activities capital assets, net	\$607,773,839	\$18,865,871	(\$2,979,883)	\$623,659,827

NOTES TO FINANCIAL STATEMENTS (Continued)

7. CHANGES IN CAPITAL ASSETS (Concluded)

	Beginning Balance July 1, 2003	Reclassifications	Additions	Retirements	Ending Balance June 30, 2004
Business-type Activities					
Non-Depreciable Assets:					
Land	\$6,776,491				\$6,776,491
Construction in progress	40,104,360		7,424,539	(518,418)	47,010,481
Depreciable Assets:					
Buildings	78,703,556				78,703,556
Improvements other than buildings	127,899,088	1,652,956	1,548,875		131,100,919
Machinery and equipment	34,380,197	(1,652,956)	434,223	(106,964)	33,054,500
Vehicles	1,601,589		383,600	(156,164)	1,829,025
Total at historical cost	289,465,281		9,791,237	(781,546)	298,474,972
Less accumulated depreciation for:					
Buildings	(36,792,538)		(1,866,136)		(\$38,658,674)
Improvements other than buildings	(55,890,207)		(2,506,096)	615	(58,395,688)
Equipment and vehicles	(22,662,025)		(2,485,338)	252,904	(24,894,459)
Infrastructure					
Total accumulated depreciation	(115,344,770)		(6,857,570)	253,519	(121,948,821)
Business-type activities capital assets, net	\$174,120,511		\$2,933,667	(\$528,027)	\$176,526,151

Depreciation expense was charged to governmental functions as follows:

General government	
Public safety	\$358,193
Highways and streets	707,751
Solid waste	5,207,141
Culture and Recreation	933,866
Social services	585,157
Information services	52,836
Unallocated depreciation	164,120
	<u>41,414</u>
	<u>\$8,050,478</u>

Capital assets held by the City's internal service funds are charged to the various functions based on their usage of assets.

NOTES TO FINANCIAL STATEMENTS (Continued)

8. LEASES

Operating Lease Obligations Payable. The City is the lessee of various properties (primarily office and storage space, as well as parking facilities) under operating leases for periods through 2009. The expenses and related revenues in connection with the leases are recorded in the General, Special Revenue and Pension Trust Funds. The total rent expense for fiscal year 2004 was \$589,606. The following is a table of future minimum noncancellable lease payments by the City:

2005	566,399
2006	382,856
2007	305,114
2008	271,304
2009	<u>163,045</u>
Total	<u>\$1,688,718</u>

The City as lessee has other lease arrangements, which have been appropriately accounted for as operating leases. Minimum lease payments payable on such leases are immaterial in amount.

Operating Lease Obligations Receivable. The City is the lessor of various parking office and airport facilities under operating leases for periods through 2018. Revenues and the related expenses for these leases are recorded in the Enterprise and Pension Trust Funds. The total rent revenue for fiscal year 2004 was \$310,182. The following is a table of future minimum noncancellable lease payments to the City:

2005	305,785
2006	196,685
2007	196,685
2008	196,685
2009	185,627
2010-2014	801,803
2015-2018	<u>421,489</u>
Total	<u>\$2,304,759</u>

The City as lessor has other lease arrangements which have been appropriately accounted for as operating leases. Minimum lease payments receivable on such leases are immaterial in amount.

NOTES TO FINANCIAL STATEMENTS (Continued)

8. LEASES (Concluded)

Capital Lease Obligations Payable. The City has entered into certain lease agreements as lessee for financing the purchase of (primarily) various types of equipment, as well as several drain construction projects. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of the items recorded under capital leases as of June 30, 2004:

<u>Asset Type</u>	<u>Enterprise Fund</u>
Equipment	\$ 258,005
Drains	<u>1,524,516</u>
	1,782,521
Less: accumulated depreciation	<u>253,313</u>
Net book value	<u>\$1,529,208</u>

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2004:

<u>Year Ending June 30</u>	<u>Enterprise Fund</u>
2005	200,878
2006	193,383
2007	144,888
2008	153,415
2009	61,077
2010-2011	<u>114,923</u>
Total minimum lease payments	868,564
Less: amount representing interest	<u>87,050</u>
Present value of future minimum lease payments	<u>\$ 781,514</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM OBLIGATIONS

The following is a summary of the governmental activities long-term debt obligations (including accrued compensated absences) of the City for the year ended June 30, 2004:

	Governmental Activities						Governmental	Total	Component
	General	General					Activities		Unit
	Obligation	Obligation							
	Portion of	Portion of							
Capital	Special	Special	Special	Other		Accrued	Governmental	Downtown	
Projects	Assessment	Revenue	Assessment	Long-term	Total	Compensated	Activities	Development	
Bonds	Bonds	Bonds	Bonds	Debt	Principal	Absences	Debt	Authority	Bonds
Bonds and other debt payable at July 1, 2003	\$16,180,000	\$1,145,599	\$3,944,886	\$2,327,996	\$460,250	\$24,058,731	\$13,678,251	\$37,736,982	\$8,261,040
Debt issued and other increases:									
Debt issued/accrued				3,500,000	3,500,000	6,108,975	9,608,975		
Amortization of bond discounts	303	1,033	820		2,156		2,156		
Debt retired and other decreases:									
Decrease in accrued compensated absences						5,135,204	5,135,204		
Debt retired	1,665,000	125,000	75,000	405,000	316,100	2,586,100	2,586,100	832,976	
Bonds and other debt payable at June 30, 2004	\$14,515,000	\$1,020,599	\$3,870,919	\$1,923,816	\$3,644,150	\$24,974,787	\$14,652,022	\$39,626,809	\$7,428,064
Balance due within one year	\$1,755,000	\$130,000	\$135,000	\$400,000	\$96,100	\$2,516,100	\$1,043,415	\$3,559,515	\$1,028,614

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM OBLIGATIONS (Continued)

The following is a summary of the business-type long-term debt (including accrued compensated absences in enterprise funds) transactions of the City for the year ended June 30, 2004:

	Business-Type Activities						Total Proprietary Fund Type Debt
	Ann Arbor Building Authority Bonds	Lease Contract Payable	Revenue Bonds	Other Long-Term Debt	Other Bonds	Accrued Compensated Absences	
Bonds and other debt payable at July 1, 2003	\$31,505,000	\$800,000	\$42,210,000	\$720,957	\$3,268,960	\$1,925,055	\$80,429,972
Debt issued and other increases:							
Debt issued/accrued	1,160,000		50,200,000	195,977		1,357,225	52,913,202
Debt retired and other decreases:							
Decrease in accrued compensated absences						742,094	742,094
Debt refunded	1,095,000		13,475,000				14,570,000
Debt retired	1,605,000	400,000	3,695,000	134,682	682,024		6,516,706
Bonds and other debt payable at June 30, 2004	\$29,965,000	\$400,000	\$75,240,000	\$782,252	\$2,586,936	\$2,540,186	\$111,514,374
Balance due within one year	\$1,695,000	\$400,000	\$3,905,000	\$161,758	\$551,386	\$179,032	\$6,892,176

(Continued)

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG-TERM OBLIGATIONS (Continued)

General Obligation Bonds are collateralized by the full faith and credit of the City; Other Long-Term Debt is collateralized by the revenues of the related funds or the full faith and credit of the City or General Fund appropriations. General Obligation Bonds' requirements will be met primarily through the debt service property tax levy. Special Assessment Bonds are serviced by the underlying special assessments. The Special Assessment Bonds are backed by the full faith and credit of the City to the extent that liens foreclosed against property involved in the special assessment districts are insufficient to retire the outstanding bonds.

Other obligations are as follows: Lease Contract Payable is to Washtenaw County for sewage system improvements and is serviced by the Sewage Disposal system. Revenue Bonds are serviced by the Water Supply System (\$39,860,000) in bond principal at June 30, 2004; Sewage Disposal System (\$34,725,000) and Stormwater Disposal System (\$655,000). Other Long-Term Debt includes various long-term obligations (notes and contracts) paid from general operations and other sources.

Other Bonds will be serviced from the revenues of the Hydroelectric Power System (\$840,000) in bond principal at June 30, 2004 and the Downtown Development Authority for the Parking System (\$1,746,936). Various limitations and restrictions are contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

During the fiscal year, the City issued \$1,160,000 in refunding bonds to advance refund the \$1,095,000 1994 AABA Golf Course Bonds. The net proceeds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments. As a result, the bonds are considered defeased and the liability for the bonds has been removed from the balance sheet. The City advance refunded the bonds to reduce its total debt service payments by \$132,507 over the next ten years and to obtain an economic gain (difference between the present value for the debt service payments on the old and new debt) of \$102,495. In accordance with GASB #23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, the loss on bond refunding has been amortized over the life of the old debt or the new debt, whichever is shorter. As the defeased bonds were called during the fiscal year and the principal amount paid in full, the City has recognized the entire loss of \$10,968 during the 03/04 fiscal year in the Golf Course Enterprise Fund.

Additionally, during the fiscal year, the City issued \$13,265,000 in refunding bonds to advance refund the \$12,940,000 1994 Water Supply System Bonds and the \$535,000 1992 Water Supply System Bonds. The net proceeds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments. As a result, the bonds are considered defeased and the liability for the bonds has been removed from the balance sheet. The City advance refunded the bonds to reduce its total debt service payments by \$1,577,037 over the next ten years and to obtain an economic gain (difference between the present value for the debt service payments on the old and new debt) of \$1,231,165. In accordance with GASB #23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, the loss on bond refunding has been amortized over the life of the old debt or the new debt, whichever is shorter. As the defeased bonds were called during the fiscal year and the principal amount paid in full, the City has recognized the entire loss of \$353,119 during the 03/04 fiscal year in the Water Supply System Enterprise Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG TERM OBLIGATIONS (Continued)

Below is a summary of general long-term debt (with various issue dates) and annual debt service requirements as of June 30, 2004:

Governmental Activities Debt										
Fiscal Year Ending	Capital Projects Bonds	General Obligation Portion of Special Assessment Bonds	General Obligation Portion of Special Revenue Bonds	Special Assessment Bonds	Other Long-term Debt	Total Governmental Activities Debt Principal	Total Governmental Activities Debt Interest	Total Governmental Activities Debt Requirements	Downtown Development Authority Bonds Principal	Downtown Development Authority Bonds Interest
2005	\$1,755,000	\$130,000	\$135,000	\$400,000	\$96,100	\$2,516,100	\$1,035,649	\$3,551,749	\$1,028,614	\$281,821
2006	1,820,000	135,000	140,000	365,000	48,050	2,508,050	922,877	3,430,927	1,085,947	241,554
2007	1,885,000	140,000	145,000	360,000		2,530,000	809,440	3,339,440	1,120,613	199,327
2008	1,925,000	75,000	155,000	125,000		2,280,000	702,716	2,982,716	1,157,946	154,672
2009	1,955,000	75,000	160,000	125,000	3,500,000	5,815,000	534,139	6,349,139	1,199,944	107,213
2010	1,960,000	80,000	170,000	125,000		2,335,000	365,455	2,700,455	575,000	72,825
2011	1,965,000	80,000	175,000	120,000		2,340,000	265,344	2,605,344	610,000	50,400
2012	625,000	80,000	185,000	90,000		980,000	192,223	1,172,223	650,000	26,000
2013	625,000	80,000	190,000	80,000		975,000	146,308	1,121,308		
2014		80,000	200,000	80,000		360,000	116,126	476,126		
2015		20,000	210,000	25,000		255,000	100,864	355,864		
2016		25,000	220,000	20,000		265,000	90,910	355,910		
2017		25,000	230,000	15,000		270,000	80,258	350,258		
2018			240,000			240,000	69,125	309,125		
2019			250,000			250,000	59,230	309,230		
2020			260,000			260,000	48,673	308,673		
2021			275,000			275,000	37,417	312,417		
2022			285,000			285,000	25,256	310,256		
2023			300,000			300,000	12,375	312,375		
	<u>\$14,515,000</u>	<u>\$1,025,000</u>	<u>\$3,925,000</u>	<u>\$1,930,000</u>	<u>\$3,644,150</u>	<u>\$25,039,150</u>	<u>\$5,614,385</u>	<u>\$30,653,535</u>	<u>\$7,428,064</u>	<u>\$1,133,811</u>
Interest Ranges	3.80 - 5.50%	3.000- 6.25%	2.50- 4.50%	3.00- 7.150%	3.60- 5.15%				3.00- 5.00%	

NOTES TO FINANCIAL STATEMENTS (Continued)

9. LONG TERM OBLIGATIONS (Concluded)

Below is a summary of the business-type activity and component unit debt (with various issue dates) and annual debt service requirements as of June 30, 2004:

Fiscal Year Ending	Enterprise Funds					Total Enterprise Fund Principal Requirements	Total Enterprise Fund Interest Requirements	Total Enterprise Fund Requirements
	Ann Arbor Building Authority Bonds	Lease Contract Payable	Revenue Bonds	Other Long-Term Debt	Other Bonds			
2005	\$1,695,000	\$400,000	\$3,905,000	\$161,739	\$551,386	\$6,713,125	\$4,502,936	\$11,216,061
2006	1,770,000		4,520,000	162,822	554,053	7,006,875	4,185,249	11,192,124
2007	1,845,000		4,675,000	123,062	559,387	7,202,449	3,918,345	11,120,794
2008	1,810,000		4,790,000	84,156	562,054	7,246,210	3,641,987	10,888,197
2009	1,710,000		4,910,000	140,473	360,056	7,120,529	3,333,222	10,453,751
2010	1,790,000		4,965,000	55,000		6,810,000	3,028,530	9,838,530
2011	1,875,000		5,200,000	55,000		7,130,000	2,727,467	9,857,467
2012	1,940,000		5,130,000			7,070,000	2,432,844	9,502,844
2013	2,010,000		5,265,000			7,275,000	2,137,643	9,412,643
2014	2,075,000		3,310,000			5,385,000	1,862,008	7,247,008
2015	2,145,000		2,750,000			4,895,000	1,648,236	6,543,236
2016	2,120,000		2,820,000			4,940,000	1,436,142	6,376,142
2017	2,190,000		2,915,000			5,105,000	1,214,743	6,319,743
2018	1,665,000		2,290,000			3,955,000	1,019,078	4,974,078
2019	1,720,000		2,365,000			4,085,000	838,646	4,923,646
2020	1,070,000		2,465,000			3,535,000	661,197	4,196,197
2021	260,000		2,570,000			2,830,000	516,123	3,346,123
2022	275,000		2,665,000			2,940,000	395,741	3,335,741
2023			2,760,000			2,760,000	272,567	3,032,567
2024			2,845,000			2,845,000	153,496	2,998,496
2025			2,125,000			2,125,000	45,156	2,170,156
	<u>\$29,965,000</u>	<u>\$400,000</u>	<u>\$75,240,000</u>	<u>\$782,252</u>	<u>\$2,586,936</u>	<u>\$108,974,188</u>	<u>\$39,971,356</u>	<u>\$148,945,544</u>
Interest Ranges	2.00- 5.88%	5.00%	3.50- 7.30%	3.50- 6.80%	3.60- 5.70%			

NOTES TO FINANCIAL STATEMENTS (Continued)

10. TRANSFERS

A reconciliation of the interfund transfers is as follows:

	Transfers In	Transfers Out
General Fund	\$1,459,205	\$4,394,574
Street Repair Millage	40,746	
Water Supply System	393,459	3,848,999
Sewage Disposal System	3,646,202	30,862
Parking System		
Golf Courses		220
Hydroelectric Power System	259,593	
Airport		2,665
Stormwater System		81,000
Nonmajor governmental funds	6,428,044	3,929,964
Internal Service Funds	63,615	2,580
	<u>\$12,290,864</u>	<u>\$12,290,864</u>
Transfers from component units to primary government		
General Fund	86,822	
Nonmajor funds	1,758,209	
Parking System	3,554,210	
Downtown Development Authority	732,799	6,132,040
	<u>732,799</u>	<u>6,132,040</u>
Total Transfers	<u>\$18,422,904</u>	<u>\$18,422,904</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (3) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service funds as debt service payments become due.

NOTES TO FINANCIAL STATEMENTS (Continued)

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1969, the City established an Insurance Fund (an Internal Service Fund) to account for and finance its uninsured risk of loss. Under this program, the Insurance Fund currently provides coverage for up to a maximum of \$300,000 for each worker's compensation claim; \$1,000,000 for each general liability claim, \$50,000 for each property damage claim, and Blue Cross Blue Shield health insurance claims. The City purchases (where coverage is available and properly priced) commercial insurance for claims in excess of coverage provided by the Fund. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All funds of the City participate in the insurance program and make payments to the Insurance Fund based on estimates of the amounts needed to pay prior and current-year claims and to establish a reserve for Incurred But Not Reported (IBNR) losses. The IBNR reserve was \$2,092,368 at June 30, 2004 and is included in Estimated Claims Payable. The total Estimated Claims Payable of \$2,797,742 is reflected in the Insurance fund at June 30, 2004. A liability for claims must be reported if information prior to the issuance of the financial statements indicates it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claim liability amount in fiscal years 2002, 2003, and 2004 are summarized below:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year End</u>
2002	4,474,443	6,710,811	(5,982,565)	5,202,689
2003	5,202,689	4,375,811	(5,529,844)	4,048,656
2004	4,048,656	5,569,474	(6,820,388)	2,797,742

12. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent City employees, permits each to defer a portion of their salary until future years. The deferred compensation is not available for distribution to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, are held in trust, with the City serving as trustee, for the exclusive benefit of the plan participants and their beneficiaries. The assets shall not be diverted to any other purpose. All provisions of the plan, and the trust, are in conformance with Internal Revenue Code Section 457.

The plan's funds are excluded from the financial statements in conformance with the reporting and disclosure requirements in GASB Statement Number 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

NOTES TO FINANCIAL STATEMENTS (Continued)

13. POST RETIREMENT BENEFITS

In addition to providing pension benefits, the City provides certain health care and life insurance benefits for retired employees in accordance with Ann Arbor City Code Chapter 21. Substantially all the City's employees may become eligible for these benefits if they retire directly from City employment. These and similar benefits for active employees are provided by various insurance companies. Health insurance benefits are provided by either a health maintenance organization or through an administrative service contract under which the City reimburses the administrator for claims paid plus an administration fee. Life and health insurance premiums are based on the forecasted benefits to be paid. The City records the cost of providing these benefits as expenses when paid. The costs of providing these benefits for 757 retirees for the year ending June 30, 2004 was estimated at \$6,083,674.

The City and the Retirement System Board entered into an agreement allowed under Michigan statutes, Act 28 for reimbursement of current health care premiums for retirees and the Pension System reimbursed the Insurance Fund for 2003-2004 retirees health care costs of \$6,083,674. Act 28 allows the Pension System to pay current retiree health care benefits from investment earnings on employer assets in excess of the actuarial rate of return.

This agreement between the City and Retirement System Board allows amounts designated from the Pension and Benefit tax levy and budgeted in operating departments for payment of health and life insurance premiums to be transferred to a VEBA Trust. The Trust was established by the City to accumulate funds for the future payment of retiree health and life insurance costs. The agreement will continue for up to ten years and allows for a maximum contribution to the VEBA Trust until it is fully funded.

14. RETIREMENT COMMITMENTS

Plan Description. The City of Ann Arbor Employees' Retirement Plan is a single-employer defined benefit plan administered by the City of Ann Arbor Employees' Retirement System (CAAERS). CAAERS provides retirement, disability and death benefits to plan members and beneficiaries. Cost of living adjustments are provided to members and beneficiaries per the Ann Arbor City Code Section 1:573 of Chapter 18. Chapter 17.1 of the Ann Arbor City Charter assigns the authority to establish and amend benefit provisions to City Council. CAAERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to City of Ann Arbor Employees' Retirement System, 301 E. Liberty St., Suite 680, Ann Arbor, Michigan, 48104 or by calling 734-994-4590.

Summary of Significant Accounting Policies

Basis of Accounting. CAAERS' financial statements are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market price are reported at estimated fair value. There are no concentrations where investments are five percent or more of the net plan assets.

Funding Policy. The contribution requirements of plan members are established and may be amended by the City Council. Plan members are required to contribute 5% of annual compensation. The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2004, was 0.00% of annual covered payroll. Administrative costs of CAAERS are financed through investment earnings.

NOTES TO FINANCIAL STATEMENTS (Continued)

14. RETIREMENT COMMITMENTS (Concluded)

Annual Pension Cost and Net Pension Obligation. The City's annual pension cost and net pension obligation to CAAERS for the current year were as follows (dollar amounts in thousands):

<u>Fiscal Year Ending June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	-	100.0%	-
2003	-	100.0%	-
2002	-	100.0%	-

The annual required contribution for the current year was determined as part of the June 30, 2002, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.0% rate of return (net of administrative expenses) and (b) projected salary increases of .04% to 6.3% per year. Both (a) and (b) included an inflation component of 3.5%. The assumptions did not include postretirement benefit increases which are funded as a pay-as-you-go basis through City Council appropriation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. There is no unfunded actuarial accrued liability to be amortized. The excess is amortized over fifteen and thirty years and used as a credit against the normal cost.

15. ENDOWMENT FUNDS

In 1964, the City became the recipient of an endowment from Elizabeth Dean which is recorded as a permanent trust fund. The corpus of the trust is to remain invested and may not be liquidated in order to generate investment income. This investment income is to be used for the purchase and maintenance of trees in the City of Ann Arbor. Net appreciation on investments is not considered investment income until realized. The amount in the Elizabeth Dean fund is shown as reserved for endowment on the Statement of Net Assets.

16. SIGNIFICANT COMMITMENTS

As of June 30, 2004, the City had \$6,867,196 in construction commitments for various projects including resurfacing of streets, bridge reconstruction and other road improvements.

17. CONTINGENT LIABILITIES

Litigation. Various lawsuits are pending against the City, some of which are for substantial amounts. On the basis of opinions and information furnished by the City Attorney, it is the judgment of City management that the ultimate liability, if any, resulting from such lawsuits would not materially affect the financial position of the City.

The City owns and maintains a closed landfill in full compliance with Michigan Department of Environmental Quality (MDEQ) requirements. The City had received approval for an onsite and (interim) offsite Remedial Action Plan (RAP) that has been implemented. This implementation included a slurry wall almost two miles in length enclosing most of the landfill. As part of these requirements, the City has posted a \$1,000,000 letter of credit to ensure compliance with the landfill cleanup regulations. Capital costs associated with the landfill cleanup are funded by a series of voter-approved bonds totaling \$28,000,000. Operating and maintenance costs for the closed landfill are funded out of the annual solid waste budget.

Therefore, no liability has been accrued in the Statement of Net Assets. These costs will be funded through the City's earmarked solid waste (refuse collection) property tax levy. The projects to be accomplished are subject to major changes (both in the nature of the work to be accomplished and in the cost thereof) due to inflation, changes in technology or changes in regulatory requirements.

Grants. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts to be immaterial.

Other. The City, along with many southeast Michigan communities, has been infected with an outbreak of Emerald Ash Borer that invades and destroys ash trees. The Emerald Ash Borer epidemic is expected to cause ash tree mortality on a widespread scale. Fifteen percent of the City's street tree population is comprised of ash trees. At this time, there is no known prevention to stop this infestation. Costs associated with removal and replanting cannot be estimated at this time.

18. SUBSEQUENT EVENTS

Subsequent to year-end, the City retired bonds in the amount of \$840,000 for the Hydroelectric Bonds for the Hydroelectric Enterprise Fund.

Additionally, subsequent to June 30, 2004, the city settled one of its nine union contracts covering varying periods from July 1, 2002 to June 30, 2004. The total liability associated with these settlements is estimated to be \$1,920,757.

REQUIRED SUPPLEMENTARY INFORMATION**GENERAL FUND**

To account for resources traditionally associated with governments
which are not required to be accounted for in another fund.

SPECIAL REVENUE FUND

Street Repair Millage - to account for the proceeds of a special millage to repair streets.

CITY OF ANN ARBOR
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

1. The City uses the "Target Based" budgeting technique. Under this system, the City Administrator determines funding levels for each department by matching funding needs with available revenue. Targets are established based on anticipated revenues and growth in expenditures.
2. In late November, each department is given a "bottom line" amount for operations. The department then determines the best way to allocate funds among expenses to remain within the target while meeting the assigned goals.
3. Department budget requests are then submitted with expenditures outlined and areas of concern identified so that adjustments can be made as needed. By allowing the departments to determine how funds are spent within the department, the operating departments have a greater ownership in how they provide services.
4. The City Administrator's recommended budget is submitted to City Council at the second meeting in April. The City Council, with at least seven affirmative votes, must adopt the budget no later than the end of its second meeting in May. According to City Charter, should the City Council not adopt an amended Budget, the City Administrator's recommended budget will automatically take effect as submitted.
5. After the budget has been adopted, City Council may amend the budget by a concurring vote of not fewer than eight members of City Council.

Formal budgetary integration is employed as a management control device during the year. The City presents a comparison of annual budgets to actual results for all major governmental funds. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year which were contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. The amount of \$993,649 was made in fiscal 2004 for supplemental appropriations. Budgets are prepared in accordance with Generally Accepted Accounting Principles using the modified-accrual basis of accounting.

The City Administrator is authorized to transfer appropriated funds between major expenditure categories within departments. However, any revisions which alter the total appropriations of any department must be approved by City Council. For budgeting purposes, the General Fund is composed of several departments. Expenditures may not legally exceed appropriations at the department level.

The City utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Under this procedure, encumbrances representing purchase orders, contracts and other commitments are reported as reservations of fund balances at year-end. All appropriations lapse at the end of the fiscal year, except for certain capital projects which are approved without regard to fiscal year. For any of these projects which are under construction at year-end, the appropriations are allowed to carry forward with the amount being adopted for the current budget year.

CITY OF ANN ARBOR
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

2. EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures exceeded appropriations in the following categories:

	Budget	Actual	Negative Variance
General Fund:			
Mayor and Council	\$204,468	\$206,922	(\$2,454)
Attorney	1,471,430	1,502,740	(31,310)
Clerk/Elections	523,224	577,344	(54,120)
Finance	2,521,635	2,536,586	(14,951)
Environmental coordination services	231,438	270,337	(38,899)
Planning	778,243	782,704	(4,461)
Pension and social security	1,305,549	1,392,785	(87,236)
Insurance	471,599	621,599	(150,000)
Miscellaneous	323,033	729,619	(406,586)
Police department	21,958,580	22,047,912	(89,332)
Building department	2,255,338	2,467,960	(212,622)
Parks and recreation	6,443,022	6,454,044	(11,022)
Historic district commission	57,372	60,091	(2,719)
Solid waste	6,337,063	6,363,071	(26,008)

General Fund:

Mayor and Council \$2,454

This deficit was attributable to increased salaries effective January 1, 2004.

Attorney \$31,310

This deficit was attributable to unexpected outside legal counsel expenses.

Clerk/Elections \$54,120

This deficit was primarily attributable to higher than anticipated severance costs and higher than anticipated salary costs for elections.

Finance \$14,951

This deficit was primarily attributable to unbudgeted severance costs.

CITY OF ANN ARBOR
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

2. EXPENDITURES IN EXCESS OF APPROPRIATIONS (Concluded)

Environmental coordination services \$38,899

This deficit was primarily attributable to higher than anticipated consulting costs.

Planning \$4,461

This deficit was primarily attributable to higher than anticipated salary and benefits costs.

Pension and Social Security \$87,236

Actual social security budgeted within departments was under budget. The deficit of the VEBA Trust transfer is offset by this surplus in the departmental social security accounts. This surplus is required by agreement to distribute back in full to the VEBA Trust.

Insurance \$150,000

This deficit was attributable to a budgeted savings for insurance that was not realized.

Miscellaneous \$406,586

This deficit was attributable to an increased accrued compensated absences adjustment to record the short-term liability.

Police Department \$89,332

This deficit was attributable to higher than anticipated overtime costs.

Building Department \$212,622

This deficit was attributable to higher than anticipated personnel costs due to increased activity for building inspections.

Parks Department \$11,022

This deficit was attributable to higher than anticipated overtime costs related to Park Operations and Forestry.

Historic District Commission \$2,719

This deficit was attributable to higher than anticipated personnel costs.

Solid Waste \$26,008

This deficit was attributable to unbudgeted severance costs.

CITY OF ANN ARBOR
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues:				
Taxes:				
General operations	\$22,824,642	\$22,824,642	\$22,761,076	(\$63,566)
Transportation (AATA)	7,967,266	7,967,266	7,945,149	(22,117)
Refuse collection	9,560,643	9,560,643	9,533,877	(26,766)
Employee benefits	7,967,266	7,967,266	7,945,149	(22,117)
Interest, penalties, payments in lieu of taxes and excess of roll	302,000	302,000	380,964	78,964
Total taxes	48,621,817	48,621,817	48,566,215	(55,602)
Licenses, permits and registrations	2,622,422	2,623,648	3,145,919	522,271
Federal grants	75,000	75,000	57,866	(17,134)
State shared revenues and grants	12,975,067	12,975,067	11,751,206	(1,223,861)
Charges for services:				
Police department	981,165	981,165	1,026,958	45,793
Fire department	900,100	900,100	457,030	(443,070)
Ann Arbor Transportation Authority	79,673	79,673	79,541	(132)
Construction overhead	1,111,080	1,111,080	5,527,974	4,416,894
Central services	665,000	665,000	760,292	95,292
Recreation facilities	1,956,630	1,961,130	2,069,479	108,349
Cemetery	7,000	7,000	7,670	670
Landfill	433,500	433,500	370,872	(62,628)
Public services			86,822	86,822
Miscellaneous	193,560	193,560	373,528	179,968
Total charges for services	6,327,708	6,332,208	10,760,166	4,427,958

(Continued)

CITY OF ANN ARBOR
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues (Concluded):				
Fines and forfeits:				
Standing violations	\$3,210,285	\$3,210,285	\$2,348,726	(\$861,559)
District court	2,936,600	2,936,600	2,692,873	(243,727)
Total fines and forfeits	6,146,885	6,146,885	5,041,599	(1,105,286)
Investment income	753,750	753,750	297,320	(456,430)
Rentals	3,000	3,000	7,356	4,356
Miscellaneous revenue:				
Sale of property and equipment	750	750	20,504	19,754
Other	644,125	1,059,654	507,388	(552,266)
Total miscellaneous revenue	644,875	1,060,404	527,892	(532,512)
Total Revenues	78,170,524	78,591,779	80,155,539	1,563,760
Expenditures:				
General government:				
Mayor and Council	204,209	204,468	206,922	(2,454)
Administration	673,047	673,227	553,982	119,245
Human resources	1,199,201	1,199,890	1,090,105	109,785
Administrative services	2,075,997	2,084,254	1,808,706	275,548
Attorney	1,453,102	1,471,430	1,502,740	(31,310)
Clerk/Elections	523,138	523,224	577,344	(54,120)
Finance	2,519,512	2,521,635	2,536,586	(14,951)
Environmental Coordination Services	302,664	231,438	270,337	(38,899)
Public services	4,910,953	4,018,944	3,714,426	304,518
Planning	823,769	778,243	782,704	(4,461)
Information technology services	2,201,376	2,201,628	1,983,511	218,117
Pension and social security	1,305,549	1,305,549	1,392,785	(87,236)
Insurance	471,599	471,599	621,599	(150,000)
Contingencies	767,984	489,366		489,366
Miscellaneous	323,033	323,033	729,619	(406,586)
Municipal service charge	(2,622,564)	(2,622,564)	(2,622,564)	
Total general government expenditures	17,132,569	15,875,364	15,148,802	726,562

(Continued)

CITY OF ANN ARBOR
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Expenditures (Concluded):				
Public safety and justice:				
Police department	\$21,357,117	\$21,958,580	\$22,047,912	(\$89,332)
Fire department	10,644,207	11,043,480	10,862,190	181,290
District court	3,464,724	3,472,894	3,321,845	151,049
Building department	2,277,401	2,255,338	2,467,960	(212,622)
Total public safety and justice expenditures	37,743,449	38,730,292	38,699,907	30,385
Social services:				
Transfers to other agencies	1,530,437	1,530,437	1,499,170	31,267
Other	130,250	185,950	137,558	48,392
Total social services expenditures	1,660,687	1,716,387	1,636,728	79,659
Culture and recreation:				
Parks and recreation	6,316,145	6,443,022	6,454,044	(11,022)
Historic district commission	57,372	57,372	60,091	(2,719)
Total culture and recreation expenditures	6,373,517	6,500,394	6,514,135	(13,741)
Other:				
Public transportation	8,046,938	8,046,938	7,951,457	95,481
Solid waste	6,499,418	6,337,063	6,363,071	(26,008)
Total other expenditures	14,546,356	14,384,001	14,314,528	69,473
Total Expenditures	77,456,578	77,206,438	76,314,100	892,338
Excess of Revenues over Expenditures	713,946	1,385,341	3,841,439	2,456,098
Other Financing Sources (Uses):				
Transfers in	\$1,803,515	\$2,195,371	\$1,459,205	(\$736,166)
Transfers out	(2,517,461)	(4,574,361)	(4,394,573)	179,788
Total Other Financing Sources (Uses)	(713,946)	(2,378,990)	(2,935,368)	(556,378)
Net change in fund balances		(993,649)	906,071	1,899,720
Fund Balance - July 1, 2003		993,649	8,557,443	7,563,794
Fund Balance - June 30, 2004	\$	\$	\$9,463,514	\$9,463,514

CITY OF ANN ARBOR
BUDGETARY COMPARISON SCHEDULE
STREET REPAIR MILLAGE FUND
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (negative)
Revenues:				
Taxes	\$7,489,894	\$7,489,894	\$7,468,908	(\$20,986)
State shared revenues and grants	250,000	250,000	123,270	(126,730)
Charges for services	-	-	347,827	347,827
Investment income	490,000	490,000	189,885	(300,115)
Contributions and donations			107,876	107,876
Miscellaneous	-	-	8,062	8,062
Total Revenues	8,229,894	8,229,894	8,245,828	15,934
Expenditures:				
Current:				
Street repair and maintenance	7,479,410	24,028,638	13,067,119	10,961,519
Total Expenditures	7,479,410	24,028,638	13,067,119	10,961,519
Excess of Revenues over (under) Expenditures	750,484	(15,798,744)	(4,821,291)	10,977,453
Other Financing Sources (Uses):				
Transfers in		40,746	40,746	
Total Other Financing Sources (Uses)		40,746	40,746	
Net change in fund balances	750,484	(15,757,998)	(4,780,545)	10,977,453
Fund Balances - July 1, 2003		15,757,998	17,607,560	1,849,562
Fund Balances - June 30, 2004	\$750,484		\$12,827,015	\$12,827,015

CITY OF ANN ARBOR
EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) AAL [UAAL (OAAL)] (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (OAAL) as a Percentage of Covered Payroll [(b-a)/c]
6/30/2004	\$409,324	\$370,409	(\$38,915)	110.5%	\$47,109	-82.6%
6/30/2003	417,623	353,620	(64,003)	118.1%	46,213	-138.5%
6/30/2002	426,440	336,340	(90,100)	126.8%	46,744	-192.8%
6/30/2001	425,538	304,349	(121,189)	139.8%	47,449	-255.4%
6/30/2000	407,468	258,286	(149,182)	157.8%	44,092	-338.3%
6/30/1999	377,462	249,242	(128,220)	151.4%	43,621	-293.9%

CITY OF ANN ARBOR
EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(amounts expressed in thousands)

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contribution</u>
2004	\$0	100%
2003	0	100%
2002	0	100%
2001	0	100%
2000	1,316	100%
1999	2,653	100%

NONMAJOR SPECIAL REVENUE FUNDS

Major Streets - to account for repairs, maintenance and construction on the City's major streets. The revenues consist primarily of State-shared gasoline and weight tax collections.

Local Streets - to account for repairs, maintenance and construction on the City's local streets. The revenues consist primarily of State-shared gasoline and weight tax collections.

Community Development - to account for funds received from the federal government for the City's Community Development Block grant program.

HOME Program- to account for funds received from the federal government for the City's Community Development HOME grant program.

Leslie Homestead - to account for the proceeds from an estate used to maintain the Leslie Homestead which consists of a historic home and laboratories.

Affordable Housing - to account for funding of selected affordable housing projects with the General Fund and federal funds.

Community Television Network - to account for the costs of running the City's community access channels on the local cable television system. Revenues are derived primarily from franchise fees.

Alternative Transportation- to account for funding set aside for the City's alternative transportation program.

Solid Waste - to account for various landfill-related projects.

Drug Enforcement - to account for confiscated property and money related to drug law enforcement activity and provide funds for future enforcement activity.

Michigan Justice Training - to account for State funds used for law enforcement training.

Parks Maintenance and Repair Millage - to account for funds derived from property tax millage earmarked for parks maintenance.

Parks Repair and Restoration Millage - to account for funds derived from property tax millage earmarked for parks' repair and restoration.

Parks Rehabilitation and Development Millage - to account for funds derived from property tax millage earmarked for parks' improvements.

Parks Acquisition Millage - to account for funds derived from property tax millage earmarked for parks acquisition.

NONMAJOR SPECIAL REVENUE FUNDS (continued)

Special Assistance - to account for funds provided by a utility bill checkoff to provide assistance to needy citizens.

Special Projects - to account for various Information Services projects.

Court Facilities - to account for a court fee to pay for facility improvements for the district court.

Local Law Enforcement Block Grant- to account for federal grant monies received for fingerprinting equipment.

Major Grants - to account for various grant monies other than community development.

Federal Equitable Sharing Forfeitures- to account for monies received as a result of joint operations with federal law enforcement. These monies are restricted for use in future law enforcement activities.

Bandemer - to account for rental income used to maintain and operate Bandemer Park.

Cemetery Perpetual Care - to account for the receipt and expenditures of fees paid for the perpetual care of gravesites at the City-owned Fairview Cemetery.

Energy Projects - to account for funding of City Energy Consumption Improvement projects.

Police and Fire Relief - to account for the receipt of investment earnings on previously transferred General fund monies. These earnings are used to subsidize the incomes of certain beneficiaries of deceased police officers and firefighters.

Michigan Economic Development Smart Zone Grant- to account for the monies passed through to establish a Smart Zone in the City limits.

NONMAJOR DEBT SERVICE FUNDS

General Debt Service - to accumulate tax revenues and operating transfers in for payment of principal and interest on non-bonded debt and general obligation bonds sold for various capital purposes.

Special Assessment Bonds-Debt Service - to accumulate revenues for payment of principal and interest on general obligation bonds sold to finance various special assessment projects. The primary sources of revenues are special assessments and related revenues (including interest and penalties).

NONMAJOR CAPITAL PROJECTS FUNDS

1991/1992/1993 Environmental Bonds - to account for bond proceeds and related revenues expended for improvements to the City's landfill.

General Capital Improvements - to account for capital project expenditures for various non-bonded improvements to certain City-owned facilities.

Maintenance Facility Construction - to account for revenues expended for the construction of a new vehicle maintenance facility.

Special Assessments – to account for bond proceeds and related revenues expended for various public improvements financed in part by assessments against benefited properties.

2003 Michigan Transportation – to account for the related expenditures for the replacement of the existing two Broadway Bridges.

NONMAJOR PERMANENT FUND

Elizabeth R. Dean Trust Fund - to account for monies provided by a private bequest to finance tree planting and maintenance. The principal amount of the bequest is to remain intact and invested. Investment earnings are used for the above stated purposes.

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2004

Special Revenue														
	Major Streets	Local Streets	Community Development	Home Program	Leslie Homestead	Affordable Housing	Community Television Network	Alternative Transportation	Solid Waste	Drug Enforcement	Michigan Justice Training	Parks Maintenance & Repair Millage	Parks Repair & Restoration Millage	Parks Rehab & Development Millage
ASSETS														
Cash	\$615,951	\$162,581	\$219,968	\$85,161	\$228,232	\$691	\$35,220		\$125,659			\$43,438	\$26,548	\$39,046
Equity in pooled cash and investments	6,303,220	1,394,264				557,284	1,572,585	81,444	5,117,126	10,520	50,652	22,070	528,335	2,865,205
Investments, at fair value									29,130					
Receivables:														
Taxes														
Accounts	238,749			14,348			303,773	30,000				3,174	5,423	8,493
Special assessments														
Accrued interest and dividends														
Improvement charges														
Loans			297,725	811,409										
Unbilled district costs														
Less: Allowance for uncollectibles	(51,910)													
Due from other funds			132		33,007	4,331			15,977			(3,173)	(5,370)	(8,440)
Due from component units	88,400	25,500											1,587	1,409
Due from other governments	522,427	148,752	129,513											
Prepaid items					1,502						1,763			
Total Assets	\$7,716,837	\$1,731,097	\$647,338	\$910,918	\$262,741	\$562,306	\$1,911,578	\$111,444	\$5,287,892	\$10,520	\$52,415	\$65,509	\$556,523	\$2,905,713
LIABILITIES AND FUND BALANCES														
Liabilities:														
Accounts payable	248,526	10,697	\$122,589	\$4,829	\$1,121	\$691	\$12,840	\$16,421				\$602	\$112,356	\$327,984
Accrued liabilities	102,127	18,205	12,561	4,707	12,801		32,362	71				36	48,896	8,351
Due to other funds	173,012	26,533	205,669	86,726	247,303		1,347		35,908			147	3,190	1,266
Due to component units														
Due to other governments					13									
Deposits	10,000						10,000			4,189			17	
Deferred revenue			297,725	811,409										
Accrued compensated absences	48,698	100	3,683	997			8,647						15,351	1,350
Total Liabilities	582,363	55,535	642,227	908,668	261,238	691	65,196	16,492	35,908	4,189		785	179,810	338,951
Fund Balances:														
Reserved for prepaid items/deferred charges					1,502						1,763			
Reserved for encumbrances	410,648	19,346					5,225	47,298	1,000,000				88,396	512,351
Reserved for landfill									154,789					
Reserved for endowment														
Reserved for Material Recovery Facility equipment replacement									561,290					
Reserved for recycling vehicle replacement									1,824,341					
Reserved for Material Recovery Facility capital repair									125					
Reserved for compost equipment									227,446					
Reserved for radio equipment									89,751					
Reserved for groundwater monitoring									264,382					
Unreserved balances:														
Undesignated, nonmajor debt service funds														
Undesignated, nonmajor capital projects funds														
Undesignated, nonmajor special revenue funds	6,723,826	1,656,216	5,111	2,250	1	561,615	1,841,157	47,654	1,129,880	6,331	50,652	64,724	288,317	2,054,411
Total Fund Balances	7,134,474	1,675,562	5,111	2,250	1,503	561,615	1,846,382	94,952	5,251,984	6,331	52,415	64,724	376,713	2,566,762
Total Liabilities and Fund Balances	\$7,716,837	\$1,731,097	\$647,338	\$910,918	\$262,741	\$562,306	\$1,911,578	\$111,444	\$5,287,892	\$10,520	\$52,415	\$65,509	\$556,523	\$2,905,713

(continued)

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2004
(continued)

	Special Revenue											
	Parks Acquisition Millage	Special Assistance	Special Projects	Court Facilities	Local Law Enforcement Block Grant	Major Grants	Federal Equitable Sharing Forfeiture	Bandemer	Cemetery Perpetual Care	Energy Projects	Police and Fire Relief	Michigan Economic Development Smart Zone Grant
ASSETS												
Cash	\$28,739	\$121	\$9,250	\$3,126	\$65,918	\$55,756						
Equity in pooled cash and investments	4,236,719	3,254	738,315	770,784			147,043	238,733	47,462	340,033	536,234	88,659
Investments, at fair value											100,840	
Receivables:												
Taxes	8,988											
Accounts						73,163		2,850				
Special assessments												
Accrued interest and dividends												
Improvement charges												
Loans												
Unbilled district costs												
Less: Allowance for uncollectibles	(8,932)											
Due from other funds	1,491					873						
Due from component units												
Due from other governments												
Prepaid items												
Total Assets	\$4,267,005	\$3,375	\$747,565	\$773,910	\$65,918	\$129,792	\$147,043	\$241,583	\$47,462	\$340,033	\$637,074	\$88,659
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable	\$4,207	\$2,847	\$99,733	\$13,213	\$4,071	\$25,653	\$3,835	\$17		\$11,460		
Accrued liabilities	1,189		3,143			8,443						
Due to other funds	1,203		914		12,271	67,046						88,312
Due to component units												
Due to other governments												
Deposits												
Deferred revenue					49,576	20,008						
Accrued compensated absences	120											
Total Liabilities	6,719	2,847	103,790	13,213	65,918	121,150	3,835	17		11,460		88,312
Fund Balances:												
Reserved for prepaid items/deferred charges												
Reserved for encumbrances			18,265									
Reserved for landfill												
Reserved for endowment												
Reserved for Material Recovery Facility equipment replacement												
Reserved for recycling vehicle replacement												
Reserved for Material Recovery Facility capital repair												
Reserved for compost equipment												
Reserved for radio equipment												
Reserved for groundwater monitoring												
Unreserved balances:												
Undesignated, nonmajor debt service funds												
Undesignated, nonmajor capital projects funds												
Undesignated, nonmajor special revenue funds	4,260,286	528	625,510	760,697		8,642	143,208	241,566	47,462	328,573	637,074	347
Total Fund Balances	4,260,286	528	643,775	760,697		8,642	143,208	241,566	47,462	328,573	637,074	347
Total Liabilities and Fund Balances	\$4,267,005	\$3,375	\$747,565	\$773,910	\$65,918	\$129,792	\$147,043	\$241,583	\$47,462	\$340,033	\$637,074	\$88,659

(continued)

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2004
(concluded)

	Debt Service		Capital Projects					Permanent	
	General Debt Service	Special Assessment Bonds - Debt Service	1991/1992/1993 Environmental Bonds	General Capital Improvements	Maintenance Facility Construction	Special Assessments	2003 Michigan Transportation Bonds	Elizabeth R. Dean Trust	Total
ASSETS									
Cash	\$41,639	\$33,202		\$2,748		\$107,710	\$952,553	\$23,966	\$2,907,223
Equity in pooled cash and investments	102,554	207,904	4,061,834	1,652,627	7,092,656		780,707		39,548,223
Investments, at fair value		1,287,987						2,088,354	3,506,311
Receivables:									
Taxes	13,137								39,215
Accounts				92,858					755,741
Special assessments		951,411							951,411
Accrued interest and dividends								28,543	28,543
Improvement charges		5,095							5,095
Loans									1,109,134
Unbilled district costs		300,309		21,406					321,715
Less: Allowance for uncollectibles	(13,052)								(90,877)
Due from other funds	2,236	39,789				120,580			221,412
Due from component units	6,910								120,810
Due from other governments									800,692
Prepaid items									3,265
Total Assets	\$153,424	\$2,825,697	\$4,061,834	\$1,769,639	\$7,092,656	\$228,290	\$1,733,260	\$2,140,863	\$50,227,913
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable		\$2,043	\$20,268	\$121,698	\$39,144				\$1,206,845
Accrued liabilities			354	718	3,274	624		1,722	259,584
Due to other funds	2,574	42,601		9		149,051		28,248	1,171,330
Due to component units	80,574								80,574
Due to other governments									30
Deposits									24,189
Deferred revenue		1,023,076							2,201,794
Accrued compensated absences			299		342	159		2,311	82,057
Total Liabilities	83,148	1,067,720	20,921	122,425	42,760	149,834		30,281	5,026,403
Fund Balances:									
Reserved for prepaid items/deferred charges									3,265
Reserved for encumbrances			41,930	383,042	199,501				2,726,002
Reserved for landfill									154,789
Reserved for endowment								2,110,582	2,110,582
Reserved for Material Recovery Facility equipment replacement									561,290
Reserved for recycling vehicle replacement									1,824,341
Reserved for Material Recovery Facility capital repair									125
Reserved for compost equipment									227,446
Reserved for radio equipment									89,751
Reserved for groundwater monitoring									264,382
Unreserved balances:									
Undesignated, nonmajor debt service funds	70,276	1,757,977							1,828,253
Undesignated, nonmajor capital projects funds			3,998,983	1,264,172	6,850,395	78,456	1,733,260		13,925,266
Undesignated, nonmajor special revenue funds									21,486,018
Total Fund Balances	70,276	1,757,977	4,040,913	1,647,214	7,049,896	78,456	1,733,260	2,110,582	45,201,510
Total Liabilities and Fund Balances	\$153,424	\$2,825,697	\$4,061,834	\$1,769,639	\$7,092,656	\$228,290	\$1,733,260	\$2,140,863	\$50,227,913

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004

	Special Revenue Funds												
	Major Streets	Local Streets	Community Development	Home Program	Leslie Homestead	Affordable Housing	Community Television Network	Alternative Transportation	Solid Waste	Drug Enforcement	Michigan Justice Training	Parks Maintenance & Repair Millage	Parks Repair & Restoration Millage
Revenues:													
Taxes	\$	\$	\$		\$	\$	\$		\$	\$	\$		\$1,779,677
Special assessments/improvement charges													
Federal grants			1,569,297	324,358									
State shared revenues and grants	6,146,775	1,674,710									19,118		
Charges for services	530,398	153,000			70,776		1,285,139		38,745				
Fines and forfeits										1,974			
Interest and penalties													
Investment income	17,716	6,504			882	3,671	22,942		26,707	102	549	1,607	11,407
Rentals					8,913								
Contributions and donations					112,938	120,136		30,000					
Sale of property and equipment							1,252		20,101				1,500
Intra-governmental sales	526,340												
Miscellaneous	120,171				36							8,459	315
Total Revenues	7,341,400	1,834,214	1,569,297	324,358	193,545	123,807	1,309,333	30,000	85,553	2,076	19,667	10,066	1,792,899
Expenditures:													
Current:													
Administration	1,727,546		302,759	76,112				362,548					
Police										9,524	29,115		
Street repair and maintenance	3,588,844	1,408,697											
Parks and recreation					231,680							2,814	1,384,427
Economic development													
Community access television							1,029,326						
Urban redevelopment and housing			1,266,027	248,818		361,105							
Information services													
Capital outlay	39,953					3,500,000	380,108						16,305
Debt Service:													
Principal retirement													
Interest and fiscal charges													
Total Expenditures	5,356,343	1,408,697	1,568,786	324,930	231,680	3,861,105	1,409,434	362,548		9,524	29,115	2,814	1,400,732
Excess of Revenues over (under) Expenditures	1,985,057	425,517	511	(572)	(38,135)	(3,737,298)	(100,101)	(332,548)	85,553	(7,448)	(9,448)	7,252	392,167
Other Financing Sources (Uses):													
Transfers in					33,007	100,000		427,500	2,166,709				
Transfers out	(552,995)	(118,799)				(34,131)			(1,266,204)				(15,454)
Note Proceeds						3,500,000							
Total Other Financing Sources (Uses)	(552,995)	(118,799)			33,007	3,565,869		427,500	900,505				(15,454)
Net change in fund balances	1,432,062	306,718	511	(572)	(5,128)	(171,429)	(100,101)	94,952	986,058	(7,448)	(9,448)	7,252	376,713
Fund Balances - July 1, 2003	5,702,412	1,368,844	4,600	2,822	6,631	733,044	1,946,483		4,265,926	13,779	61,863	57,472	
Fund Balances - June 30, 2004	\$7,134,474	\$1,675,562	\$5,111	\$2,250	\$1,503	\$561,615	\$1,846,382	\$94,952	\$5,251,984	\$6,331	\$52,415	\$64,724	\$376,713

(continued)

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004
(continued)

Special Revenue Funds

	Parks & Rehab Development Millage	Parks Acquisition Millage	Special Assistance	Special Projects	Court Facilities	Local Law Enforcement Block Grant	Major Grants	Federal Equitable Sharing Forfeiture	Bandemer	Cemetery Perpetual Care	Energy Projects	Police and Fire Relief	Michigan Economic Development Smart Zone Grant
Revenues:													
Taxes	\$1,745,337	\$1,847,227	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Special assessments/improvement charges						24,882	417,837						
Federal grants	124,100						56,935						
State shared revenues and grants	262,030												
Charges for services							80,000			2,420			250,000
Fines and forfeits					225,312			210,693					
Interest and penalties									36,000				
Investment income	31,005	36,198	35		3,016	230	1,949		706	160	1,333	3,703	
Rentals		87,115	6,271										
Contributions and donations	16,148						1,481				9,632		
Sale of property and equipment				6,114									
Intra-governmental sales													
Miscellaneous	2,162												
Total Revenues	2,180,782	1,970,540	6,306	6,114	228,328	25,112	558,202	210,693	36,706	2,580	10,965	3,703	250,000
Expenditures:													
Current:													
Administration					93,109						56,567		109
Police						33,199	379,970	110,182					
Street repair and maintenance													
Parks and recreation	2,401,654	135,768					102,070		11,076				
Economic development													250,000
Community access television													
Urban redevelopment and housing			6,178										
Information services				279,624									
Capital outlay	171,318	1,628,377		33,166	8,646	2,926	78,731						
Debt Service:													
Principal retirement													
Interest and fiscal charges													
Total Expenditures	2,572,972	1,764,145	6,178	312,790	101,755	36,125	560,771	110,182	11,076		56,567		250,109
Excess of Revenues over (under) Expenditures	(392,190)	206,395	128	(306,676)	126,573	(11,013)	(2,569)	100,511	25,630	2,580	(45,602)	3,703	(109)
Other Financing Sources (Uses):													
Transfers in				950,000		11,013					158,224		
Transfers out													
Note Proceeds													
Total Other Financing Sources (Uses)				950,000		11,013					158,224		
Net change in fund balances	(392,190)	206,395	128	643,324	126,573		(2,569)	100,511	25,630	2,580	112,622	3,703	(109)
Fund Balances - July 1, 2003	2,958,952	4,053,891	400	451	634,124		11,211	42,697	215,936	44,882	215,951	633,371	456
Fund Balances - June 30, 2004	\$2,566,762	\$4,260,286	\$528	\$643,775	\$760,697		\$8,642	\$143,208	\$241,566	\$47,462	\$328,573	\$637,074	\$347

(continued)

CITY OF ANN ARBOR
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004
(concluded)

	Debt Service		Capital Projects					Permanent	
	General Debt Service	Special Assessment Bonds - Debt Service	1991/1992/1993 Environmental Bonds	General Capital Improvements	Maintenance Facility Construction	Special Assessments	2003 Michigan Transportation Bonds	Elizabeth R. Dean Trust	Total
Revenues:									
Taxes	\$2,754,802	\$	\$	\$	\$	\$	\$	\$	\$8,127,043
Special assessments/improvement charges		271,356							714,075
Federal grants									2,074,690
State shared revenues and grants				114,263					8,466,896
Charges for services									2,160,478
Fines and forfeits									437,979
Interest and penalties		59,095							95,095
Investment income	4,435	18,512	26,105	14,882	55,081	561	9,041		299,039
Rentals									102,299
Contributions and donations									290,335
Sale of property and equipment									28,967
Intra-governmental sales									526,340
Miscellaneous									131,143
Total Revenues	2,759,237	348,963	26,105	129,145	55,081	561	9,041		23,454,379
Expenditures:									
Current:									
Administration	11,697	16,944							2,647,391
Police									561,990
Street repair and maintenance									4,997,541
Parks and recreation								123,004	4,392,493
Economic development									250,000
Community access television									1,029,326
Urban redevelopment and housing									1,882,128
Information services									279,624
Capital outlay			142,100	147,265	923,237	143,967			7,216,099
Debt Service:									
Principal retirement	2,151,100	405,000							2,556,100
Interest and fiscal charges	1,069,815	117,568							1,187,383
Total Expenditures	3,232,612	539,512	142,100	147,265	923,237	143,967		123,004	27,000,075
Excess of Revenues over (under) Expenditures	(473,375)	(190,549)	(115,995)	(18,120)	(868,156)	(143,406)	9,041	(123,004)	(3,545,696)
Other Financing Sources (Uses):									
Transfers in	761,011			1,300,000	400,000	120,580			6,428,044
Transfers out	(259,593)			(359,811)	(1,300,000)	(22,978)			(3,929,965)
Note Proceeds									3,500,000
Total Other Financing Sources (Uses)	501,418			940,189	(900,000)	97,602			5,998,079
Net change in fund balances	28,043	(190,549)	(115,995)	922,069	(1,768,156)	(45,804)	9,041	(123,004)	2,452,383
Fund Balances - July 1, 2003	42,233	1,948,526	4,156,908	725,145	8,818,052	124,260	1,724,219	2,233,586	42,749,127
Fund Balances - June 30, 2004	\$70,276	\$1,757,977	\$4,040,913	\$1,647,214	\$7,049,896	\$78,456	\$1,733,260	\$2,110,582	\$45,201,510

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2004

	Major Streets			Local Streets			Community Development		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants							2,177,443	1,569,297	(608,146)
State shared revenues and grants	5,528,535	6,146,775	618,240	1,558,568	1,674,710	116,142			
Charges for services	522,000	530,398	8,398	150,000	153,000	3,000			
Fines and forfeits									
Investment income	116,000	17,716	(98,284)	57,000	6,504	(50,496)			
Rentals									
Contributions and donations									
Sale of property and equipment									
Intra-governmental sales	23,070	526,340	503,270						
Miscellaneous	5,000	120,171	115,171						
Total Revenues	6,194,605	7,341,400	1,146,795	1,765,568	1,834,214	68,646	2,177,443	1,569,297	(608,146)
Expenditures:									
Current:									
Administration	2,796,510	1,727,546	1,068,964				619,138	302,759	316,379
Police									
Street repair and maintenance	3,640,706	3,588,844	51,862	1,589,975	1,408,697	181,278			
Social services - transfers to other agencies									
Parks and recreation									
Solid waste									
Community access television									
Urban redevelopment and housing							1,558,305	1,266,027	292,278
Information Services									
Capital outlay		39,953	(39,953)						
Total Expenditures	6,437,216	5,356,343	1,080,873	1,589,975	1,408,697	181,278	2,177,443	1,568,786	608,657
Excess of Revenues over (under) Expenditures	(242,611)	1,985,057	2,227,668	175,593	425,517	249,924		511	511
Other Financing Sources (Uses):									
Transfers in									
Transfers out	(704,471)	(552,995)	151,476	(149,961)	(118,799)	31,162			
Note Proceeds									
Total Other Financing Sources (Uses)	(704,471)	(552,995)	151,476	(149,961)	(118,799)	31,162			
Net changes in fund balances	(947,082)	1,432,062	2,379,144	25,632	306,718	281,086		511	511
Fund Balances - July 1, 2003	947,082	5,702,412	4,755,330		1,368,844	1,368,844		4,600	4,600
Fund Balances - June 30, 2004		\$7,134,474	\$7,134,474	\$25,632	\$1,675,562	\$1,649,930		\$5,111	\$5,111

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2004

	Home Program			Leslie Homestead			Affordable Housing		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants	3,050,800	324,358	(2,726,442)						
State shared revenues and grants									
Charges for services				66,700	70,776	4,076			
Fines and forfeits									
Investment income					882	882	5,000	3,671	(1,329)
Rentals				10,500	8,913	(1,587)			
Contributions and donations				27,000	112,938	85,938		120,136	120,136
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous				86,509	36	(86,473)	15,000		(15,000)
Total Revenues	3,050,800	324,358	(2,726,442)	190,709	193,545	2,836	20,000	123,807	103,807
Expenditures:									
Current:									
Administration	85,354	76,112	9,242						
Police									
Street repair and maintenance									
Social services - transfers to other agencies									
Parks and recreation				240,679	231,680	8,999			
Solid waste									
Community access television									
Urban redevelopment and housing	2,965,446	248,618	2,716,828				550,000	361,105	188,895
Information Services									
Capital outlay							3,500,000		(3,500,000)
Total Expenditures	3,050,800	324,930	2,725,870	240,679	231,680	8,999	550,000	3,861,105	(3,311,105)
Excess of Revenues over (under) Expenditures		(572)	(572)	(49,970)	(38,135)	11,835	(530,000)	(3,737,298)	(3,207,298)
Other Financing Sources (Uses):									
Transfers in				50,416	33,007	(17,409)	200,000	100,000	(100,000)
Transfers out								(34,131)	(34,131)
Note Proceeds							3,500,000		3,500,000
Total Other Financing Sources (Uses)				50,416	33,007	(17,409)	200,000	3,565,869	3,365,869
Net changes in fund balances		(572)	(572)	446	(5,128)	(5,574)	(330,000)	(171,429)	158,571
Fund Balances - July 1, 2003		2,822	2,822		6,631	6,631	330,000	733,044	403,044
Fund Balances - June 30, 2004		\$2,250	\$2,250	\$446	\$1,503	\$1,057		\$561,615	\$561,615

CITY OF ANN ARBOR
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGETARY COMPARISONS
 For the Year Ended June 30, 2004

	Community Television Network			Alternative Transportation			Solid Waste		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants									
State shared revenues and grants									
Charges for services	1,152,000	1,285,139	133,139				15,000	38,745	23,745
Fines and forfeits									
Investment income	40,000	22,942	(17,058)					26,707	26,707
Rentals									
Contributions and donations				30,000	30,000		1,152,350		(1,152,350)
Sale of property and equipment		1,252	1,252					20,101	20,101
Intra-governmental sales									
Miscellaneous	21,000		(21,000)						
Total Revenues	1,213,000	1,309,333	96,333	30,000	30,000		1,167,350	85,553	(1,081,797)
Expenditures:									
Current:									
Administration				427,500	362,548	64,952	160,000		160,000
Police									
Street repair and maintenance									
Social services - transfers to other agencies									
Parks and recreation									
Solid waste									
Community access television	1,522,416	1,029,326	493,090						
Urban redevelopment and housing									
Information Services									
Capital outlay	40,394	380,108	(339,714)				992,350		992,350
Total Expenditures	1,562,810	1,409,434	153,376	427,500	362,548	64,952	1,152,350		1,152,350
Excess of Revenues over (under) Expenditures	(349,810)	(100,101)	249,709	(427,500)	(332,548)	94,952	15,000	85,553	70,553
Other Financing Sources (Uses):									
Transfers in				427,500	427,500		615,000	2,166,709	1,551,709
Transfers out							(1,240,500)	(1,266,204)	(25,704)
Note Proceeds									
Total Other Financing Sources (Uses)				427,500	427,500		(625,500)	900,505	1,526,005
Net changes in fund balances	(349,810)	(100,101)	249,709	94,952	94,952		556,850	986,058	429,208
Fund Balances - July 1, 2003	349,810	1,946,483	1,596,673				650,500	4,265,926	3,615,426
Fund Balances - June 30, 2004		\$1,846,382	\$1,846,382		\$94,952	\$94,952	\$1,207,350	\$5,251,984	\$4,044,634

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2004

	Drug Enforcement			Michigan Justice Training			Parks Maintenance & Repair Millage		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants									
State shared revenues and grants				40,000	19,118	(20,882)			
Charges for services									
Fines and forfeits	15,000	1,974	(13,026)						
Investment income		102	102	2,000	549	(1,451)		1,607	1,607
Rentals									
Contributions and donations									
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous								8,459	8,459
Total Revenues	15,000	2,076	(12,924)	42,000	19,667	(22,333)		10,066	10,066
Expenditures:									
Current:									
Administration									
Police	20,000	9,524	10,476	60,000	29,115	30,885			
Street repair and maintenance									
Social services - transfers to other agencies									
Parks and recreation							125,931	2,814	123,117
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay									
Total Expenditures	20,000	9,524	10,476	60,000	29,115	30,885	125,931	2,814	123,117
Excess of Revenues over (under) Expenditures	(5,000)	(7,448)	(2,448)	(18,000)	(9,448)	8,552	(125,931)	7,252	133,183
Other Financing Sources (Uses):									
Transfers in									
Transfers out									
Note Proceeds									
Total Other Financing Sources (Uses)									
Net changes in fund balances	(5,000)	(7,448)	(2,448)	(18,000)	(9,448)	8,552	(125,931)	7,252	133,183
Fund Balances - July 1, 2003	5,000	13,779	8,779	66,658	61,863	(4,795)	125,931	57,472	(68,459)
Fund Balances - June 30, 2004	\$6,331	\$6,331		\$48,658	\$52,415	\$3,757	\$64,724	\$64,724	

CITY OF ANN ARBOR
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGETARY COMPARISONS
 For the Year Ended June 30, 2004

	Parks Repair & Restore Millage			Parks Rehab & Development Millage			Parks Acquisition Millage		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$ 1,784,477	\$ 1,779,677	\$ (4,800)	\$ 1,750,109	\$ 1,745,337	\$ (4,772)	\$ 1,852,457	\$ 1,847,227	\$ (5,230)
Federal grants				98,000	124,100	26,100			
State shared revenues and grants				231,919	262,030	30,111			
Charges for services	3,000		(3,000)						
Fines and forfeits									
Investment income		11,407	11,407		31,005	31,005	75,000	36,198	(38,802)
Rentals									
Contributions and donations				111,100	16,148	(94,952)		87,115	87,115
Sale of property and equipment		1,500	1,500						
Intra-governmental sales									
Miscellaneous		315	315		2,162	2,162			
Total Revenues	1,787,477	1,792,899	5,422	2,191,128	2,180,782	(10,346)	1,927,457	1,970,540	43,083
Expenditures:									
Current:									
Administration									
Police									
Street repair and maintenance									
Social services - transfers to other agencies									
Parks and recreation	1,779,969	1,384,427	395,542	2,350,280	2,401,654	(51,374)	2,118,196	1,764,145	354,051
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay		16,305	(16,305)	558,318	171,318	387,000			
Total Expenditures	1,779,969	1,400,732	379,237	2,908,598	2,572,972	335,626	2,118,196	1,764,145	354,051
Excess of Revenues over (under) Expenditures	7,508	392,167	384,659	(717,470)	(392,190)	325,280	(190,739)	206,395	397,134
Other Financing Sources (Uses):									
Transfers in									
Transfers out		(15,454)	(15,454)						
Note Proceeds									
Total Other Financing Sources (Uses)		(15,454)	(15,454)						
Net changes in fund balances	7,508	376,713	369,205	(717,470)	(392,190)	325,280	(190,739)	206,395	397,134
Fund Balances - July 1, 2003				805,175	2,958,952	2,153,777	265,000	4,053,891	3,788,891
Fund Balances - June 30, 2004	\$7,508	\$376,713	\$369,205	\$87,705	\$2,566,762	\$2,479,057	\$74,261	\$4,260,286	\$4,186,025

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2004

	Special Assistance			Special Projects			Court Facilities		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants									
State shared revenues and grants									
Charges for services									
Fines and forfeits							200,000	225,312	25,312
Investment income	200	35	(165)					3,016	3,016
Rentals									
Contributions and donations	8,000	6,271	(1,729)		6,114	6,114			
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous									
Total Revenues	8,200	6,306	(1,894)		6,114	6,114	200,000	228,328	28,328
Expenditures:									
Current:									
Administration							200,000	93,109	106,891
Police									
Street repair and maintenance									
Social services - transfers to other agencies									
Parks and recreation									
Solid waste									
Community access television									
Urban redevelopment and housing	8,200	6,178	2,022						
Information Services				950,000	279,624	670,376			
Capital outlay					33,166	(33,166)		8,646	(8,646)
Total Expenditures	8,200	6,178	2,022	950,000	312,790	637,210	200,000	101,755	98,245
Excess of Revenues over (under) Expenditures		128	128	(950,000)	(306,676)	643,324		126,573	126,573
Other Financing Sources (Uses):									
Transfers in				950,000	950,000				
Transfers out									
Note Proceeds									
Total Other Financing Sources (Uses)				950,000	950,000				
Net changes in fund balances		128	128		643,324	643,324		126,573	126,573
Fund Balances - July 1, 2003		400	400		451	451		634,124	634,124
Fund Balances - June 30, 2004		\$528	\$528		\$643,775	\$643,775		\$760,697	\$760,697

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2004

	Local Law Enforcement Block Grant			Major Grants			Federal Equitable Sharing Forfeiture		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants	65,461	24,882	(40,579)	564,499	417,837	(146,662)			
State shared revenues and grants				193,183	56,935	(136,248)			
Charges for services				85,664	80,000	(5,664)			
Fines and forfeits							107,221	210,693	103,472
Investment income	4,037	230	(3,807)		1,949	1,949	15,000		(15,000)
Rentals									
Contributions and donations					1,481	1,481			
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous									
Total Revenues	69,498	25,112	(44,386)	843,346	558,202	(285,144)	122,221	210,693	88,472
Expenditures:									
Current:									
Administration				220,939		220,939			
Police	94,420	33,199	61,221	600,239	379,970	220,269	107,221	110,182	(2,961)
Street repair and maintenance									
Social services - transfers to other agencies									
Parks and recreation				19,451	102,070	(82,619)			
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay		2,926	(2,926)		78,731	(78,731)			
Total Expenditures	94,420	36,125	58,295	840,629	560,771	279,858	107,221	110,182	(2,961)
Excess of Revenues over (under) Expenditures	(24,922)	(11,013)	13,909	2,717	(2,569)	(5,286)	15,000	100,511	85,511
Other Financing Sources (Uses):									
Transfers in	23,444	11,013	12,431	117,701		(117,701)			
Transfers out									
Note Proceeds									
Total Other Financing Sources (Uses)	23,444	11,013	12,431	117,701		(117,701)			
Net changes in fund balances	(1,478)		1,478	120,418	(2,569)	(122,987)	15,000	100,511	85,511
Fund Balances - July 1, 2003	4,817		(4,817)		11,211	11,211		42,697	42,697
Fund Balances - June 30, 2004	\$3,339		(\$3,339)	\$120,418	\$8,642	(\$111,776)	\$15,000	\$143,208	\$128,208

CITY OF ANN ARBOR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGETARY COMPARISONS
For the Year Ended June 30, 2004

	Bandemer			Cemetery Perpetual Care			Energy Projects		
	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)	Modified Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:									
Taxes	\$ -	\$	\$	\$ -	\$	\$	\$ -	\$	\$
Federal grants									
State shared revenues and grants									
Charges for services				2,500	2,420	(80)			
Fines and forfeits									
Investment income	3,756	706	(3,050)		160	160	5,000	1,333	(3,667)
Rentals	33,725	36,000	2,275						
Contributions and donations							9,632	9,632	
Sale of property and equipment									
Intra-governmental sales									
Miscellaneous									
Total Revenues	37,481	36,706	(775)	2,500	2,580	80	14,632	10,965	(3,667)
Expenditures:									
Current:									
Administration							15,000	56,567	(41,567)
Police									
Street repair and maintenance									
Social services - transfers to other agencies									
Parks and recreation	31,500	11,076	20,424						
Solid waste									
Community access television									
Urban redevelopment and housing									
Information Services									
Capital outlay							85,000		85,000
Total Expenditures	31,500	11,076	20,424				100,000	56,567	43,433
Excess of Revenues over (under) Expenditures	5,981	25,630	19,649	2,500	2,580	80	(85,368)	(45,602)	39,766
Other Financing Sources (Uses):									
Transfers in							158,979	158,224	(755)
Transfers out									
Note Proceeds									
Total Other Financing Sources (Uses)							158,979	158,224	(755)
Net changes in fund balances	5,981	25,630	19,649	2,500	2,580	80	73,611	112,622	39,011
Fund Balances - July 1, 2003		215,936	215,936		44,882	44,882		215,951	215,951
Fund Balances - June 30, 2004	\$5,981	\$241,566	\$235,585	\$2,500	\$47,462	\$44,962	\$73,611	\$328,573	\$254,962

CITY OF ANN ARBOR
ALL INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2004

ASSETS	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Current Assets:					
Cash	\$15,353	\$3,550	\$71,631	\$129,247	\$219,781
Equity in pooled cash and investments	664,757		1,591,722	9,623,780	11,880,259
Accounts receivable	6,867		39,127	4,616	50,610
Less: allowance for uncollectibles	(2,403)		(24,258)	(4,256)	(30,917)
Due from other funds			447,461	7,965	455,426
Due from component units				38	38
Prepaid items				1,345,735	1,345,735
Inventory, at cost	385,604		415,485		801,089
Total Current Assets	1,070,178	3,550	2,541,168	11,107,125	14,722,021
Property, Plant and Equipment, at cost:					
Land		98,440	96,267		194,707
Buildings	90,663	152,159	257,843		500,665
Improvements other than buildings			62,407		62,407
Vehicles			7,697,869		7,697,869
Machinery and equipment	75,733		2,150,947		2,226,680
Less: Accumulated depreciation	(113,408)	(143,919)	(7,259,034)		(7,516,361)
Net Property, Plant and Equipment	52,988	106,680	3,006,299		3,165,967
Total Assets	1,123,166	110,230	5,547,467	11,107,125	17,887,988
LIABILITIES					
Current Liabilities:					
Accounts payable	\$60,391	\$1,653	\$145,693	\$420,925	\$628,662
Estimated claims payable				2,797,742	2,797,742
Accrued liabilities	11,307	431	57,720	15,519	84,977
Accrued interest payable			275		275
Due to other funds	2,920	3,036	101,540	42	107,538
Accrued compensated absences - short term	3,571		20,323	2,241	26,135
Total Current Liabilities	78,189	5,120	325,551	3,236,469	3,645,329
Long Term Liabilities:					
Accrued compensated absences	32,179	467	209,207	33,400	275,253
Total Long-Term Liabilities	32,179	467	209,207	33,400	275,253
TOTAL LIABILITIES	110,368	5,587	534,758	3,269,869	3,920,582
Net Assets:					
Invested in Capital Assets, net of related debt	52,988	106,680	3,006,299		3,165,967
Unrestricted (deficit)	959,810	(2,037)	2,006,410	7,837,256	10,801,439
TOTAL NET ASSETS	\$1,012,798	\$104,643	\$5,012,709	\$7,837,256	\$13,967,406

CITY OF ANN ARBOR
ALL INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2004

	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Operating Revenues:					
Charges for services	\$1,076,336	\$100,104	\$3,561,639	\$19,400,451	\$24,138,530
Miscellaneous revenues			21,597		21,597
Total Operating Revenues	1,076,336	100,104	3,583,236	19,400,451	24,160,127
Operating Expenses:					
Personal services	262,584	32,513	1,285,480	386,591	1,967,168
Materials and supplies	12,563	6,530	33,885	10,857	63,835
Utilities	2,114	47,961	46,942	1,427	98,444
Insurance	45,515	3,109	101,154	14,725,525	14,875,303
Contractual services	94,194	999	9,698	592	105,483
Maintenance	1,754	4,123	54,023		59,900
Professional fees	458		20,597	145,908	166,963
Miscellaneous	19,693	96	1,325	4,634	25,748
Cost of goods sold	565,978		1,048,706		1,614,684
Depreciation and amortization	5,010	3,296	1,086,514		1,094,820
Total Operating Expenses	1,009,863	98,627	3,688,324	15,275,534	20,072,348
Operating Income (Loss)	66,473	1,477	(105,088)	4,124,917	4,087,779
Nonoperating Revenues (Expenses):					
Investment income	1,657	34	(6,623)	31,315	26,383
Interest expense and fiscal charges			(1,420)		(1,420)
Net gain on retirement of capital assets			101,710		101,710
Total Nonoperating Revenues (Expenses)	1,657	34	93,667	31,315	126,673
Income (Loss) Before Transfers	68,130	1,511	(11,421)	4,156,232	4,214,452
Transfers In			63,615		63,615
Transfers Out			(2,580)		(2,580)
Net Transfers In (Out)			61,035		61,035
Change in Net Assets	68,130	1,511	49,614	4,156,232	4,275,487
Net Assets - July 1, 2003	944,668	103,132	4,963,095	3,681,024	9,691,919
Net Assets - June 30, 2004	\$1,012,798	\$104,643	\$5,012,709	\$7,837,256	\$13,967,406

CITY OF ANN ARBOR
ALL INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2004

	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Cash Flows from Operations:					
Receipts from customers	\$1,071,872	\$100,104	\$3,575,367	\$19,400,091	\$24,147,434
Receipts from interfund services provided	2,920		101,540	42	104,502
Payments to suppliers	(747,369)	(61,165)	(1,176,555)	(17,020,295)	(19,005,384)
Payments to employees	(253,843)	(31,615)	(1,247,395)	(382,013)	(1,914,866)
Payments for interfund services used		(9,185)	(396,816)	(8,003)	(414,004)
Net cash provided by (used in) operating activities	73,580	(1,861)	856,141	1,989,822	2,917,682
Cash flows from noncapital financing activities:					
Transfers in			63,615	-	63,615
Transfers out			(2,580)		(2,580)
Net cash flows provided by noncapital financing activities	-		61,035	-	61,035
Cash flows from capital and related financing activities:					
Principal paid on capital leases and notes			(30,000)		(30,000)
Interest paid on capital leases and notes			(1,420)		(1,420)
Proceeds from sale of equipment			102,895		102,895
Acquisition of capital assets			(510,620)		(510,620)
Net cash flows used in capital and related financing activities			(439,145)		(439,145)
Cash flows from investing activities:					
Interest and dividends on investments	1,657	34	(6,623)	31,315	26,383
Net cash flows provided by (used in) investing activities	1,657	34	(6,623)	31,315	26,383
Net increase (decrease) in cash and cash equivalents	75,237	(\$1,827)	471,408	2,021,137	2,565,955
Cash and cash equivalents - July 1, 2003	604,873	5,377	1,191,945	7,731,890	9,534,085
Cash and cash equivalents - June 30, 2004	\$680,110	\$3,550	\$1,663,353	\$9,753,027	\$12,100,040

(Continued)

CITY OF ANN ARBOR
ALL INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2004

	Central Stores	Park Service Headquarters	Fleet Services	Insurance	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Net operating income (loss)	\$66,473	\$1,477	(\$105,088)	\$4,124,917	\$4,087,779
Adjustments not affecting cash:					
Depreciation and amortization	5,010	3,296	1,086,514		1,094,820
Allowance for uncollectible accounts	2,403		(75)		2,328
(Increase) decrease in assets and increase (decrease) in liabilities:					
Accounts receivable	(6,867)		(7,794)	(360)	(15,021)
Inventory	(18,548)		60,657		42,109
Prepaid items				(1,231,710)	(1,231,710)
Accounts payable	13,448	1,653	79,118	351,272	445,491
Accrued compensated absences	6,567	467	26,648	3,241	36,923
Estimated claims payable				(1,250,914)	(1,250,914)
Accrued liabilities	2,174	431	11,437	1,337	15,379
Due to other funds	2,920	(9,185)	101,540	42	95,317
Due from other funds			(396,816)	(8,003)	(404,819)
Net cash provided by (used in) operating activities	\$73,580	(\$1,861)	\$856,141	\$1,989,822	\$2,917,682

CITY OF ANN ARBOR
ALL FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2004

	Employee Retirement Funds		
	Employees' Retirement System	VEBA Trust Fund	Total Pension Funds
ASSETS			
Cash	\$466,493	\$166,209	\$632,702
Equity in pooled cash and investments		1,568,853	1,568,853
Investments, at fair value:			
Short term investments	8,517,760		8,517,760
U.S. Government obligations	60,089,644		60,089,644
Municipal bonds	657,275		657,275
Collateralized Mortgage Obligations	7,728,665		7,728,665
Domestic corporate bonds	38,120,129	14,391,805	52,511,934
Domestic stocks	236,757,945	21,579,588	258,337,533
Real Estate-Direct & funds	26,064,854		26,064,854
Accrued interest and dividends	1,614,864	123,461	1,738,325
Due from other governments	562,993	68,116	631,109
Property, plant & equipment (net of depreciation of \$19,504)	8,893		8,893
Total Assets	380,589,515	37,898,032	418,487,547
LIABILITIES			
Liabilities:			
Accounts payable	\$4,423,342	\$287,443	4,710,785
Accrued liabilities			
Accrued compensated absences			
Total Liabilities	4,423,342	287,443	4,710,785
Net Assets:			
Held in Trust for Pension Benefits and Other Purposes	\$376,166,173	\$37,610,589	\$413,776,762

CITY OF ANN ARBOR
ALL FIDUCIARY FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2004

	Agency Funds				Total Agency Funds
	Treasurer's Current Tax	Treasurer's Delinquent Tax	Contractors' Retainage	Fifteenth District Court	
ASSETS					
Cash	\$37,508	\$204,412	\$678,902	\$204,432	\$1,125,254
Total Assets	\$37,508	\$204,412	\$678,902	\$204,432	\$1,125,254
LIABILITIES					
Liabilities:					
Accounts payable	\$37,508		\$678,902		\$716,410
Due to other funds					
Due to other governments		204,412		124,825	329,237
Deposits				79,607	79,607
Total Liabilities	\$37,508	\$204,412	\$678,902	\$204,432	\$1,125,254

CITY OF ANN ARBOR
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2004

	Employee Retirement Funds		Total
	Employees' Retirement System	VEBA Trust Fund	
ADDITIONS			
Investment income:			
Net realized and unrealized appreciation in fair value of investments	\$41,231,556	\$1,829,217	\$43,060,773
Interest	6,793,207	725,107	7,518,314
Dividends	1,168,397	249,220	1,417,617
Total investment income	49,193,160	2,803,544	51,996,704
Less investment expense	1,589,732	139,990	1,729,722
Net investment earnings	47,603,428	2,663,554	50,266,982
Contributions:			
Employer		7,803,872	7,803,872
Plan member	2,638,863		2,638,863
Total contributions	2,638,863	7,803,872	10,442,735
Total additions	50,242,291	10,467,426	60,709,717
DEDUCTIONS			
Benefits	20,616,839		20,616,839
Refund of contributions	952,348		952,348
Administrative expense	6,572,113	8,343	6,580,456
Total deductions	28,141,300	8,343	28,149,643
Change in net assets	22,100,991	10,459,083	32,560,074
Net assets held in trust for benefits at beginning of year	354,065,182	27,151,506	381,216,688
Net assets held in trust for benefits at end of year	\$376,166,173	\$37,610,589	\$413,776,762

CITY OF ANN ARBOR
ALL AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
TREASURER'S CURRENT TAX FUND				
ASSETS				
Cash		\$658,410,578	\$658,373,070	\$37,508
Equity in pooled cash and investments		183,344,128	183,344,128	
Due from other funds		266,004	266,004	
Due from other governments	56,221		56,221	
Total Assets	<u>\$56,221</u>	<u>\$842,020,710</u>	<u>\$842,039,423</u>	<u>\$37,508</u>
LIABILITIES				
Accounts payable	\$56,221	\$2,452,948	\$2,471,661	\$37,508
Due to other funds		859,499	859,499	
Due to other governments		194,299,425	194,299,425	
Total Liabilities	<u>\$56,221</u>	<u>\$197,611,872</u>	<u>\$197,630,585</u>	<u>\$37,508</u>

CITY OF ANN ARBOR
ALL AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
TREASURER'S DELINQUENT TAX FUND				
ASSETS				
Cash	\$371,558	\$1,539,185	\$1,706,331	\$204,412
Equity in pooled cash and investments		1,064,116	1,064,116	
Accounts Receivable		28	28	
Due from other funds	55,291	56,041	111,332	
Due from other governments	6,254		6,254	
Total Assets	\$433,103	\$2,659,370	\$2,888,061	\$204,412
LIABILITIES				
Accounts payable	\$82,229	\$121,152	\$203,381	
Due to other funds		429,552	429,552	
Due to other governments	350,874	601,983	748,445	204,412
Total Liabilities	\$433,103	\$1,152,687	\$1,381,378	\$204,412
CONTRACTORS' RETAINAGES FUND				
ASSETS				
Cash	687,885	1,221,263	1,230,246	678,902
Equity in pooled cash and investments		432,651	432,651	
Total Assets	687,885	1,653,914	1,662,897	678,902
LIABILITIES				
Accounts payable	687,885	776,807	785,790	678,902
Due to other funds		8,979	8,979	
Total Liabilities	687,885	785,786	794,769	678,902

CITY OF ANN ARBOR
ALL AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2004

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004
FIFTEENTH DISTRICT COURT				
ASSETS				
Cash	\$195,261	\$249,223	\$240,052	\$204,432
LIABILITIES				
Due to other funds		\$242,295	\$242,295	
Due to other governments	105,710	19,115		124,825
Deposits	89,551		9,944	79,607
Total Liabilities	\$195,261	\$261,410	\$252,239	\$204,432
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash	\$1,254,704	\$661,420,249	\$661,549,699	\$1,125,254
Equity in pooled cash and investments		184,840,895	184,840,895	
Receivables:				
Accounts		28	28	
Due from other funds	55,291	322,045	377,336	
Due from other governments	62,475		62,475	
Total Assets	\$1,372,470	\$846,583,217	\$846,830,433	\$1,125,254
LIABILITIES				
Accounts payable	\$826,335	\$3,350,907	\$3,460,832	\$716,410
Due to other funds		1,540,325	1,540,325	
Due to other governments	456,584	194,920,523	195,047,870	329,237
Deposits	89,551		9,944	79,607
Total Liabilities	\$1,372,470	\$199,811,755	\$200,058,971	\$1,125,254

TABLE I

CITY OF ANN ARBOR
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	General Government	Public Safety and Justice	Highways and Streets	(1) Fleet Services	Solid Waste	Health/ Social Services	Culture and Recreation	Debt Service	Transfers to Ann Arbor Transportation Authority	Other	Total
1994-95	\$ 20,711,684	\$ 20,820,162	\$ 10,893,294	\$ 2,334,290	\$ 3,933,877	\$ 4,213,949	\$ 4,628,379	\$ 5,736,615	\$ 5,408,737	\$ 1,695	\$ 78,682,682
1995-96	21,987,922	22,367,044	13,461,610	2,508,410	4,058,967	2,598,020	5,201,288	5,537,039	5,560,123	1,797	83,282,220
1996-97	22,582,732	23,891,469	12,112,829	2,718,602	4,565,859	3,494,159	5,897,498	5,458,333	5,753,186	94	86,474,761
1997-98	14,665,219	31,352,475	10,661,950		5,817,958	3,685,771	7,906,103	5,671,627	5,967,106	1,334,460	87,062,669
1998-99	14,936,004	32,109,227	14,746,181		5,946,846	3,837,878	9,684,027	5,088,188	6,265,996		92,614,347
1999-00	17,771,338	32,893,940	18,637,509		6,482,045	3,219,633	9,231,520	5,105,664	6,523,601		99,865,250
2000-01	17,901,505	39,436,291	18,218,884		6,406,705	4,207,320	9,428,250	4,803,225	6,776,531		107,178,711
2001-02	18,493,802	37,125,565	13,676,514		6,855,787	3,752,615	9,669,723	3,610,715	7,137,843		100,322,564
2002-03	19,978,064	37,464,842	11,543,201		6,589,484	3,680,937	11,130,658	3,441,049	7,613,357	10,187,500	111,629,092
2003-04	18,075,817	39,261,897	18,064,660		6,363,071	3,518,856	11,935,954	3,743,483	7,951,457	250,000	109,165,195

Note:

Includes all operating expenditures for General, Special Revenue, Expendable Trust (for years prior to 2001-2002), and Debt Service Funds (except capital outlay in Special Revenue Funds).

(1) The operations of Fleet Services (Motor Equipment Fund) were consolidated into the General Fund on July 1, 1992 and re-established as an Internal Service Fund on July 1, 1997.

Source: City of Ann Arbor - Finance Department

TABLE II

CITY OF ANN ARBOR
GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Property Taxes	Licenses, Permits and Registrations	Inter-Governmental	Rentals	Charges for Services	Fines and Forfeits	Investment Income	Other	Total
1994-95	\$ 43,497,874	\$ 1,633,000	\$ 20,231,116	\$ 42,338	\$ 9,245,475	\$ 4,411,736	\$ 2,194,562	\$ 4,427,481	\$ 85,683,582
1995-96	44,836,635	1,488,056	22,115,238	44,965	9,414,722	4,043,519	2,983,843	1,743,271	86,670,249
1996-97	46,036,783	1,772,740	21,855,209	73,744	9,380,459	4,260,334	2,989,792	1,437,028	87,806,089
1997-98	48,174,774	2,698,512	22,762,448	71,993	9,564,778	5,052,292	7,031,196	4,519,795	99,875,788
1998-99	50,960,730	2,945,101	23,733,677	52,171	9,154,370	5,238,081	2,737,210	2,130,291	96,951,631
1999-00	52,787,520	4,099,147	23,940,639	50,107	10,368,179	5,737,482	2,661,456	1,991,066	101,635,596
2000-01	54,797,240	3,122,293	25,665,530	49,163	10,196,953	5,541,929	4,558,874	1,306,055	105,238,037
2001-02	57,801,733	2,856,377	26,530,787	53,363	7,335,366	5,321,733	3,355,595	982,161	104,237,115
2002-03	61,284,172	3,001,458	34,335,894	52,839	7,060,039	5,901,225	1,746,522	2,244,735	115,626,884
2003-04	64,162,166	3,145,919	22,473,928	109,655	13,268,471	5,479,578	786,244	2,429,785	111,855,746

Note:

Includes General, Special Revenue, Debt Service and Expendable Trust Funds (prior to 2001-02).

Source: City of Ann Arbor - Finance Department

Table III

CITY OF ANN ARBOR
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Total Tax Levy	Current Collections to March 1, each year		Collected to June 30	
		Amount	Percent	Amount	Percent
1994-95	\$ 42,409,296	\$ 41,139,492	97.0	\$ 42,304,902	99.8
1995-96	43,641,062	42,377,759	97.1	43,498,845	99.7
1996-97	44,954,725	43,764,688	97.4	44,835,252	99.7
1997-98	47,465,910	46,477,106	97.9	47,352,198	99.8
1998-99	50,297,248	49,305,383	98.0	50,189,332	99.8
1999-00	52,075,252	51,162,749	98.3	51,958,008	99.8
2000-01	54,210,561	53,385,722	98.5	54,138,837	99.9
2001-02	57,214,924	56,263,669	98.3	57,096,077	99.8
2002-03	61,993,518	60,937,583	98.3	61,781,727	99.7
2003-04	64,736,506	63,519,485	98.1	64,535,327	99.7

Ad valorem taxes are levied July 1st annually, and are due July 31st. Delinquent real property taxes are turned over to the County for collection the following March 1st. The County pays all its municipalities from a revolving fund for delinquent real property taxes. Delinquent personal property taxes are negligible.

Source: City of Ann Arbor - Finance Department, Treasury Division

TABLE IV

CITY OF ANN ARBOR
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (Unaudited)

Fiscal Year	Taxable Value			Final Equalized Assessed Value	True Cash Value	Industrial Facilities Tax Roll
	Real Property	Personal Property	Total Valuation			
1994-95	\$ 2,347,073,100	\$ 215,302,000	\$ 2,562,375,100	\$ 2,562,375,100	\$ 5,124,750,200	\$ 17,895,700
1995-96	2,403,581,095	224,140,700	2,627,721,795	2,633,642,600	5,267,285,200	17,551,500
1996-97	2,487,377,168	233,044,900	2,720,422,068	2,722,634,200	5,445,268,400	17,080,600
1997-98	2,561,309,025	242,149,600	2,803,458,625	2,867,066,700	5,734,133,400	15,895,500
1998-99	2,696,959,403	260,367,000	2,957,326,403	3,049,361,700	6,098,723,400	2,001,000
1999-00	2,812,309,779	280,181,600	3,092,491,379	3,274,785,900	6,549,571,800	1,999,100
2000-01	2,949,820,311	267,104,900	3,216,925,211	3,540,261,000	7,080,522,000	-
2001-02	3,153,455,816	269,398,975	3,422,854,791	3,951,507,650	7,903,015,300	-
2002-03	3,375,930,999	299,043,900	3,674,974,899	4,370,512,600	8,741,025,200	-
2003-04	3,554,607,491	274,842,600	3,829,450,091	4,835,407,200	9,670,814,400	31,030,900

Notes:

- (1) Taxable property in the City is assessed by the City Assessor and is subject to review by the County Board of Equalization. Tax levies on property in Michigan were applied against the assessed value of all property as finally equalized by the State through 1994. Current statutes require assessments to be 50% of the true cash value of both personal and real property for equalization purposes.
- (2) In accordance with Act 409, Public Acts of Michigan, 1965, and Article 9, Section 2 of the Michigan Constitution, as amended by Joint Resolution S on March 15, 1994, state equalized value shall not exceed 50% of the true cash value. With the passage of Proposal "A", another value is required on each property. The new value is termed "taxable value". Increases in taxable value are limited to 5%, the Consumer Price Index, or State Equalized Value, whichever is less.
- (3) 2003/04 Per Capita Taxable Value \$33,574
 2003/04 Per Capita True Cash Value \$84,786
- (4) A breakdown of the City's 2003 Taxable Value by use and class is as follows:

By Use	
Residential	59.66%
Commercial	32.85%
Industrial	6.57%
Utility	0.92%
Total	<u>100.00%</u>

By Class	
Real Property	92.82%
Personal Property	7.18%
Total	<u>100.00%</u>

- (5) For the Industrial Facilities tax roll, the millage rate is 50% of the normal millage rate.

Source: City of Ann Arbor - Finance Department, Assessing Division

TABLE V

CITY OF ANN ARBOR
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
(PER \$1,000 OF ASSESSED VALUE)
LAST TEN FISCAL YEARS
(Unaudited)

CITY OF ANN ARBOR													
Fiscal Year	General Operating	Refuse Collection	Transportation*	Employee Benefits	Debt Service	Parks	Major Street Repair	Subtotal	Ann Arbor Public Schools**	Ann Arbor District Library***	Washtenaw County	Washtenaw Community College	Total
Homestead 1994-95	6.3476	2.5410	2.1505	1.9252	1.1145	0.8379	1.9086	16.8253	24.1987		5.8600	3.0900	49.9740
Non-Homestead 1994-95	6.3476	2.5410	2.1505	1.9252	1.1145	0.8379	1.9086	16.8253	30.8409		5.8600	3.0900	56.6162
Homestead 1995-96	6.4515	2.5806	2.1505	1.8671	1.0397	0.8379	1.9509	16.8782	24.8739		5.6000	3.0700	50.4221
Non-Homestead 1995-96	6.4515	2.5806	2.1505	1.8671	1.0397	0.8379	1.9509	16.8782	32.2625		5.6000	3.0700	57.8107
Homestead 1996-97	6.4515	2.5806	2.1505	1.9060	0.9241	0.8379	1.9509	16.8015	20.8288	1.6500	5.5775	2.9329	47.7907
Non-Homestead 1996-97	6.4515	2.5806	2.1505	1.9060	0.9241	0.8379	1.9509	16.8015	30.6155	1.6500	5.5775	2.9329	57.5774
Homestead 1997-98	6.4515	2.5806	2.1505	2.1146	1.0864	0.8379	2.0000	17.2215	21.4759	1.6500	5.5322	3.9029	49.7825
Non-Homestead 1997-98	6.4515	2.5806	2.1505	2.1146	1.0864	0.8379	2.0000	17.2215	30.5031	1.6500	5.5322	3.9029	58.8097
Homestead 1998-99	6.4515	2.5806	2.1505	2.1505	1.0275	0.9450	2.0000	17.3056	20.6808	1.6500	5.5629	4.1029	49.3022
Non-Homestead 1998-99	6.4515	2.5806	2.1505	2.1505	1.0275	0.9450	2.0000	17.3056	30.2352	1.6500	5.5629	4.1029	58.8566
Homestead 1999-00	6.4515	2.5806	2.1505	2.1505	0.8539	0.9450	2.0000	17.1320	19.9233	1.6500	5.5809	4.0319	48.3181
Non-Homestead 1999-00	6.4515	2.5806	2.1505	2.1505	0.8539	0.9450	2.0000	17.1320	29.6256	1.6500	5.5809	4.0319	58.0204
Homestead 2000-01	6.0655	2.5674	2.1395	2.1395	0.7901	1.4377	1.9898	17.1295	18.8558	1.9500	5.5317	3.9944	47.4614
Non-Homestead 2000-01	6.0655	2.5674	2.1395	2.1395	0.7901	1.4377	1.9898	17.1295	29.4965	1.9500	5.5317	3.9944	58.1021
Homestead 2001-02	6.0315	2.5530	2.1275	2.1275	0.7549	1.4295	1.9786	17.0025	18.1505	1.9500	5.7269	3.9721	46.8020
Non-Homestead 2001-02	6.0315	2.5530	2.1275	2.1275	0.7549	1.4295	1.9786	17.0025	29.1050	1.9500	5.7269	3.9721	57.7565
Homestead 2002-03	6.0315	2.5302	2.1085	2.1085	0.6916	1.4166	1.9822	16.8691	19.2398	1.9500	5.6420	3.8559	47.5568
Non-Homestead 2002-03	6.0315	2.5302	2.1085	2.1085	0.6916	1.4166	1.9822	16.8691	30.6320	1.9500	5.6420	3.8559	58.9490
Homestead 2003-04	6.0315	2.5264	2.1054	2.1054	0.7300	1.4236	1.9792	16.9015	17.1741	1.9500	5.5819	3.8343	45.4418
Non-Homestead 2003-04	6.0315	2.5264	2.1054	2.1054	0.7300	1.4236	1.9792	16.9015	29.5202	1.9500	5.5819	3.8343	57.7879

* Represents millage collected for Ann Arbor Transportation Authority.

** Includes Washtenaw Intermediate School Ann Arbor District millage of 3.0552 mills and State Education Tax of 5.0 mills on both Principle Residence and Non-Principle Residence properties. On Non-Principal Residence properties, an additional 12.3461 mills is included for School Operating Tax.

*** Ann Arbor District Library is now a separate taxing unit, beginning with 1996 tax, and previously was included in Ann Arbor Public Schools millage.

The City has enjoyed a stable property tax rate in all taxing jurisdictions due to annual increases in valuations as a result of economic growth.

Source: City of Ann Arbor - Finance Department, Assessing Division

TABLE VI

CITY OF ANN ARBOR
SPECIAL ASSESSMENT LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Current Assessments Due	Current Assessments Collected	Ratio of Collections to Assessments Due	Outstanding Current and Delinquent Assessments
1994-95	\$ 828,100	\$ 828,100	100	-0-
1995-96	632,106	632,106	100	-0-
1996-97	655,083	655,083	100	-0-
1997-98	580,572	580,572	100	-0-
1998-99	520,036	520,036	100	-0-
1999-00	535,772	535,772	100	-0-
2000-01	411,752	411,752	100	-0-
2001-02	568,966	568,966	100	-0-
2002-03	323,895	323,895	100	-0-
2003-04	227,687	227,687	100	-0-

Note:

All assessments are either paid when due or added to the property tax bill. Delinquent taxes are turned over to the County for collection the following March 1st. The County pays all its municipalities from a revolving fund for delinquent real property taxes. Therefore, all assessments are considered collected currently.

Source: City of Ann Arbor - Finance Department, Treasury Division

TABLE VII

CITY OF ANN ARBOR
RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED/TAXABLE VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Population	Assessed/ Taxable Value	Gross Bonded Debt (1)	Debt Service Monies Available (2)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed/ Taxable Value	Net Bonded Debt Per Capita
1994-95	109,440	\$ 2,520,567,000	\$ 28,330,000	\$ 536,672	\$ 27,793,328	0.0110	\$ 253.96
1995-96	109,440	2,627,721,795	27,475,000	450,970	27,024,030	0.0103	246.93
1996-97	109,440	2,720,422,068	26,395,000	(20,501)	26,415,501	0.0097	241.37
1997-98	109,440	2,803,458,625	25,110,000	255	25,109,745	0.0090	229.44
1998-99	109,440	2,957,326,403	23,380,000	180,634	23,199,366	0.0078	211.98
1999-00	109,472	3,092,491,379	21,840,000	199,356	21,640,644	0.0070	197.68
2000-01	113,992	3,216,925,211	20,300,000	199,700	20,100,300	0.0062	176.33
2001-02	114,061	3,422,854,791	19,020,000	188,202	18,831,798	0.0055	165.10
2002-03	114,061	3,674,974,899	17,330,000	42,233	17,287,767	0.0047	151.57
2003-04	114,061	3,829,450,091	15,540,000	70,276	15,469,724	0.0040	135.63

Notes:

(1) All long-term general obligation debt, except debt issued for Enterprise Funds, Special Revenue bonds and Ann Arbor Building Authority bonds.

(2) General Debt Service Fund Balance (deficit) at end of fiscal year (General Debt Only).

Source: City of Ann Arbor-Finance Department.

TABLE VIII

CITY OF ANN ARBOR
COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2004
(Unaudited)

Taxable value of real and personal property	<u>\$ 3,829,450,091</u>
Legal debt limit (10% of taxable value)	<u>382,945,009</u>
Debt subject to limit:	
Net direct debt	49,149,150
Less: Special Assessment bonds (general obligation portion)	(1,025,000)
Indirect debt	<u>-</u>
	<u>48,124,150</u>
Legal debt margin	<u>\$ 334,820,859</u>

Source: City of Ann Arbor-Finance Department

TABLE IX

CITY OF ANN ARBOR
COMPUTATION OF NET DIRECT, INDIRECT AND OVERLAPPING DEBT
June 30, 2004
(Unaudited)

	Gross Amount Outstanding	Self-Supporting Or Paid By Benefited Entity	Net Amount Outstanding
DIRECT AND INDIRECT DEBT			
General Obligation Bonds	\$26,893,064	\$11,353,064	\$15,540,000
Special Assessment Bonds	1,930,000	1,930,000	
Ann Arbor Building Authority Bonds	29,965,000		29,965,000
Lease Contract Payable (Wastewater Treatment Plant)	400,000	400,000	
Revenue Bonds	75,240,000	75,240,000	
Other Long-Term Debt	4,426,421	782,271	3,644,150
Other Bonds	2,586,936	2,586,936	
NET DIRECT AND INDIRECT DEBT	\$141,441,421	\$92,292,271	49,149,150
OVERLAPPING DEBT			
62.06% Ann Arbor School District	34,678,000	13,156,833	21,521,167
32.78% Washtenaw Community College	67,130,000	45,124,786	22,005,214
31.99% Washtenaw County at Large	35,263,354	23,982,607	11,280,747
NET OVERLAPPING DEBT	\$137,071,354	\$82,264,226	54,807,128
NET DIRECT, INDIRECT AND OVERLAPPING DEBT			\$103,956,278
PER CAPITA (114,061)			
Net Direct and Indirect Debt			\$430.90
Net Direct, Indirect and Overlapping Debt			\$911.41
RATIO TO 2003/2004 TAXABLE VALUE (\$3,860,480,991)			
Net Direct and Indirect Debt			1.28%
Net Direct, Indirect and Overlapping Debt			2.71%

Source: Municipal Advisory Council

TABLE X

CITY OF ANN ARBOR
 RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
 GENERAL BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
 LAST TEN FISCAL YEARS
 (Unaudited)

Fiscal Year	Principal Retirement	Interest and Fiscal Charges	Total Debt Service	Total General Governmental Expenditures (1)	Percent of Debt Service to Total General Governmental Expenditures
1994-95	\$ 2,915,951	\$ 2,820,664	\$ 5,736,615	\$ 78,682,682	7.3%
1995-96	2,850,604	2,686,435	5,537,039	83,282,220	6.6%
1996-97	2,923,417	2,534,916	5,458,333	86,474,761	6.3%
1997-98	3,309,691	2,361,936	5,671,627	85,852,405	6.6%
1998-99	2,940,190	2,147,998	5,088,188	91,337,982	5.6%
1999-00	3,449,129	1,656,535	5,105,664	99,865,250	5.1%
2000-01	3,330,792	1,472,433	4,803,225	107,178,711	4.5%
2001-02	2,544,562	1,066,153	3,610,715	100,322,564	3.6%
2002-03	3,305,970	1,292,084	4,598,054	111,629,092	4.1%
2003-04	3,389,076	1,429,218	4,818,294	109,165,195	4.4%

(1) Includes General, Special Revenue, Expendable Trust (prior to 2001-2002) and Debt Service Funds (except capital outlay in Special Revenue Funds).

Source: City of Ann Arbor-Finance Department

TABLE XI

CITY OF ANN ARBOR
REVENUE BOND COVERAGE ENTERPRISE FUNDS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Operating Revenue (1)	Operating Expenses (2)	Net Revenue Available For Debt Service	Principal	Interest	Total	Coverage
Water Supply System:							
1994-95	\$ 12,897,687	\$ 8,229,509	\$ 4,668,178	\$ 1,355,000	\$ 1,598,366	\$ 2,953,366	1.6
1995-96	13,439,193	8,857,326	4,581,867	1,500,000	1,838,626	3,338,626	1.4
1996-97	13,386,972	9,739,310	3,647,662	1,655,000	2,038,256	3,693,256	1.0
1997-98	14,385,459	10,208,257	4,177,202	1,520,000	1,983,116	3,483,116	1.2
1998-99	13,491,641	10,398,392	3,093,249	1,525,000	1,862,659	3,387,659	0.9
1999-00	15,347,694	10,323,987	5,023,707	1,880,000	2,000,997	3,880,997	1.3
2000-01	15,324,166	9,654,378	5,669,788	1,985,000	1,775,399	3,760,399	1.5
2001-02	17,772,569	9,955,579	7,816,990	2,235,000	1,653,572	3,888,572	2.0
2002-03	16,510,943	10,629,592	5,881,351	2,240,000	1,779,305	4,019,305	1.5
2003-04	16,105,264	11,065,321	5,039,943	2,470,000	1,580,236	4,050,236	1.2
Sewage Disposal System:							
1994-95	\$ 13,488,740	\$ 9,251,316	\$ 4,237,424	\$ 1,060,000	\$ 719,454	\$ 1,779,454	2.4
1995-96	14,393,362	9,557,620	4,835,742	1,120,000	705,720	1,825,720	2.6
1996-97	13,735,303	9,223,847	4,511,456	1,245,000	721,655	1,966,655	2.3
1997-98	14,896,297	9,650,824	5,245,473	1,040,000	653,672	1,693,672	3.1
1998-99	12,610,932	9,673,398	2,937,534	1,095,000	575,047	1,670,047	1.8
1999-00	14,181,088	11,236,645	2,944,443	1,200,000	528,680	1,728,680	1.7
2000-01	15,140,567	12,526,551	2,614,016	1,250,000	478,705	1,728,705	1.5
2001-02	16,870,157	10,147,750	6,722,407	1,305,000	411,860	1,716,860	3.9
2002-03	16,555,436	9,578,002	6,977,434	1,300,000	367,060	1,667,060	4.2
2003-04	15,938,987	10,904,443	5,034,544	1,115,000	322,820	1,437,820	3.5
Stormwater Sewer System:							
1994-95	\$1,785,286	\$1,288,774	\$496,512	\$70,000	\$68,487	\$138,487	3.6
1995-96	1,930,998	1,395,255	535,743	70,000	79,624	149,624	3.6
1996-97	2,042,180	1,598,145	444,035	75,000	74,647	149,647	3.0
1997-98	2,054,249	1,533,796	520,453	80,000	69,204	149,204	3.5
1998-99	2,137,340	1,713,109	424,231	80,000	64,506	144,506	2.9
1999-00	1,999,327	1,721,429	277,898	85,000	61,750	146,750	1.9
2000-01	2,129,529	1,666,023	463,506	95,000	56,508	151,508	3.1
2001-02	2,487,424	1,581,689	905,735	100,000	51,781	151,781	6.0
2002-03	2,688,709	1,681,136	1,007,573	105,000	45,270	150,270	6.7
2003-04	2,859,418	1,691,556	1,167,862	110,000	41,366	151,366	7.7

Notes:

(1) Includes interest income.

(2) Excludes depreciation expense.

Source: City of Ann Arbor - Finance Department

TABLE XII

CITY OF ANN ARBOR
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Population (1)	Median age (1)	Education Level in Years of Formal Schooling (2)	School Enrollment (2)	Unemployment Rate % (3)
1994-95	109,440	27.9	16.5	15,094	2.9
1995-96	109,440	27.9	16.5	15,368	2.5
1996-97	109,440	27.9	16.5	15,560	2.5
1997-98	109,440	27.9	16.5	16,800	2.0
1998-99	109,440	27.9	16.5	16,330	1.8
1999-00	109,472	27.9	16.5	16,530	1.5
2000-01	113,992	27.9	16.5	16,589	2.9
2001-02	114,024	28.1	16.5	16,768	2.9
2002-03	114,061	28.1	16.5	16,664	4.1
2003-04	114,061	28.1	16.5	16,724	6.8

Sources:

- (1) U. S. Census Bureau 2002
- (2) Ann Arbor Public School's Child Accounting Office.
- (3) Michigan Employment Security Commission statistics for Washtenaw County.

TABLE XIII

CITY OF ANN ARBOR
PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS
LAST TEN FISCAL YEARS
(Unaudited)

<u>Fiscal Year</u>	<u>Property Value</u>	<u>New Construction</u>	<u>Bank Deposits</u>
1994-95	\$ 5,124,750,200	\$ 95,660,170	\$ 67,737,581,000
1995-96	5,267,285,200	79,791,127	115,465,544,000
1996-97	5,445,268,400	95,138,092	106,423,322,000
1997-98	5,734,133,400	135,196,054	64,514,625,000
1998-99	6,098,723,400	155,306,060	52,890,434,000
1999-00	6,549,571,800	322,464,582	75,400,277,000
2000-01	7,080,522,000	204,325,294	57,717,028,000 *
2001-02	7,903,015,300	133,835,686	42,911,831,000 *
2002-03	8,741,025,200	218,171,600	48,041,005,985 *
2003-04	9,670,814,400	267,378,600	160,395,306,000 *

Sources: City of Ann Arbor - Building Department and Finance Department, Assessing Division
Local Financial Institutions

* Includes deposits other than Michigan

TABLE XIV

CITY OF ANN ARBOR
PRINCIPAL TAXPAYERS
(Unaudited)

The twenty largest taxpayers for the 2003-04 fiscal year and their 2003 Taxable Values are as follows:

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Valuation</u>	<u>Percentage of Total Taxable Value</u>
Pfizer	Pharmaceuticals	\$200,365,900	5.23%
Briarwood Shopping Complex	Shopping Center	35,975,316	0.94%
Detroit Edison	Utility	27,022,655	0.71%
Arborland	Shopping Center	19,733,504	0.52%
Geddes Lakes Cooperative	Co-op Housing	15,862,230	0.41%
McKinley Associates	Apartments	15,354,353	0.40%
Windemere Park Apt.	Apartments	14,001,751	0.37%
Village Co-op	Co-op Housing	13,153,339	0.34%
Michigan Consolidated Gas Co.	Utility	12,437,000	0.32%
Glacier Hills	Elderly Housing	12,414,549	0.32%
Phoenix Drive LLC	Corporate Headquarters	11,782,197	0.31%
Botanical Gardens Assoc.	Apartments	11,392,048	0.30%
Burlington Property, LLC	Office Building	10,797,200	0.28%
EQR-Fancap	Apartments	10,766,019	0.28%
Great Lakes Real Estate Investment Trust	Office Building	10,279,998	0.27%
Signature Villas	Apartments	10,120,971	0.26%
Arbor Landings	Apartments	10,110,965	0.26%
Arbor Lake Village Apt.	Apartments	9,841,803	0.26%
Comcast	Cable Television	9,746,542	0.25%
Bella Costa	Apartments	8,034,620	0.21%
		<u>\$ 469,192,960</u>	<u>12.25%</u>
Total			

These taxpayers represent 12.25% of the City's 2003 valuation.

Source: City of Ann Arbor - Finance Department, Assessing Division

TABLE XV

CITY OF ANN ARBOR
MISCELLANEOUS STATISTICS
June 30, 2004
(Unaudited)

Date of incorporation	1851	Sewers:	
Form of government	Council-Administrator	Miles of sanitary sewers	365
Miles of streets	291.46	Miles of storm sewers	271
Number of street lights	8,786		
Fire protection:		Culture and recreation:	
Number of stations	5	Number of parks	153 with 2,055 acres
Number of firefighters and officers	100		2 18-hole golf courses
Number of fire hydrants	3345		1 enclosed ice arena, 1 with roof
			3 outdoor pools, 1 indoor pool
			3 historic sites
Water Utilities Department:			1 art center, 1 senior center
Number of connections	27,096		2 canoe liveries
Average daily consumption	15.272 MGD		
Miles of water mains	441	Permanent employees:	840

Area and Population Data:

<u>Year</u>	<u>Population</u>	<u>Area in Square Miles</u>
1950	48,251	7.3
1960	67,340	15.0
1970	100,035	23.3
1980	107,969	23.5
1990	109,592	27.0
2000	109,472	28.5
2001	113,992	28.6
2002	114,024	28.6
2003	114,024	28.6
2004	114,061	28.6

Source: Various City of Ann Arbor Departments
U.S. Census Bureau

CITY OF ANN ARBOR
COMMUNITY PROFILE/INFORMATION
June 30, 2004
(Unaudited)

The City of Ann Arbor is located in the approximate center of Washtenaw County in the southeastern section of Michigan's lower peninsula. The City is approximately 28 square miles in area and serves as the County Seat. It is known nationally as the home of the University of Michigan, which currently employs approximately 23,044 people.

Ann Arbor offers a unique blend of business, education, and recreational opportunities. Through the efforts of local builders, contractors and retailers, the City has not only grown at its outer boundaries, but the central City remains a vibrant retail, service and entertainment location. The area is serviced by prominent legal counsel, excellent account and brokerage houses, several advertising agencies, employment services, insurance companies, realtors, data processing centers, travel agencies and testing facilities, as well as consultants and engineering firms for all needs. Additionally, the City has attracted high technology research industries in the computer, engineering, and energy fields, which are expected to aid in the future economic growth of the area.

Among the cultural and recreational attractions available to Ann Arbor residents are the Professional Theater Program at the University of Michigan, Ann Arbor Civic Theater, Ann Arbor Symphony Orchestra, University Musical Society presentations, and a number of museums and galleries. There are several public and private golf courses, and the City park system encompasses 2,079 acres, which includes 148 park sites. The collegiate sports spectator can see first-class sporting events throughout the year at the University, including football, basketball, baseball, and hockey.

EMPLOYMENT

Residents of the City are characterized as being well educated. According to the 2000 U. S. Census, over 69 percent of its residents over 25 years of age had completed four or more years of college. Sixty-one percent of the total work force is engaged in managerial and professional occupations, with the largest portions in the health service, education and research, retail and manufacturing industries.

HIGHER EDUCATION

The University of Michigan has a national reputation for academic excellence and is one of Ann Arbor's greatest assets. Rated among the top ten universities by the latest survey of the American Council of Education, the University enrolls over 39,031 students in 19 schools and colleges. The school is well equipped to provide instruction and research opportunities in a wide variety of fields.

There are four other institutions of higher learning located within a ten-mile radius of downtown Ann Arbor, they are: Washtenaw Community College, Cleary University, Eastern Michigan University, and Concordia University.

MEDICAL FACILITIES

Students and residents of Ann Arbor are served by the nationally acclaimed University of Michigan Medical Center, which houses seven hospitals and an eight-story patient tower with more than 800 beds and outpatient clinics in 15 major clinical areas. Ann Arbor residents are also served by these area medical institutions: Veterans Administration Hospital, and St. Joseph Mercy Health System.

COMMUNITY PROFILE/INFORMATION
June 30, 2004

HOUSING

A varied housing supply exists in Ann Arbor to meet the wide range of needs of local residents. The housing stock includes single-family homes, duplexes, condominiums, multiple family apartments, and rooms in houses and dormitories. The housing market generally follows the University of Michigan's schedule (more housing is available in the spring and less at the start of each semester). In addition to several newer subdivisions in and around the City, Ann Arbor's older housing is generally in excellent condition and in considerable demand. The City's west side and downtown have been designated historical districts, where the homes retain the charm, character, and unique architecture of days past.

Rental housing is available throughout the City in a wide range of styles, sizes, and price, furnished and unfurnished. The following statistics further identify Ann Arbor's housing characteristics:

	1980 <u>U. S. Census</u>	1990 <u>U. S. Census</u>	2000 <u>U. S. Census</u>
Total year round housing units	40,139	44,010	47,218
Total occupied housing units	38,945	41,657	45,693
Median value owner occupied, single-family housing unit	\$69,600	\$116,400	\$181,400

TRANSPORTATION

A major expressway network surrounds Ann Arbor including Interstate 94, the major east-west artery across Michigan connecting Detroit and Chicago, and U. S. 23, which links Ann Arbor to northern Michigan and to Ohio to the south. M-14 is a major eastbound connector to I-275 and I-96, which supplies access to the northern metropolitan areas of Wayne, Oakland, and Macomb Counties.

The Ann Arbor Transportation Authority provides a variety of local transportation services. Greyhound Bus Lines, Overland Travel, and Indian Trails Motorcoach provide bus service to and from Ann Arbor. In addition, four local taxicab companies operate in the City; they are: Ann Arbor Taxi, Blue Cab Co., Veterans Cab Co., and Yellow Cab Co.

Passenger rail service is available to the east via Detroit and to the west via Chicago from the Amtrak Passenger Station in Ann Arbor. Rail freight service is provided by Norfolk & Western Rail Road Company of Milan, Michigan and Conrail of Ypsilanti, Michigan.

Corporate and flight training service is provided by the Ann Arbor Municipal Airport, located on the south side of Ann Arbor. Willow Run Airport, 11 miles from Ann Arbor, is a cargo transportation center; and passenger airline service is available on major commercial carriers from Detroit Wayne County Metropolitan Airport, 23 miles east of the City.

COMMUNITY PROFILE/INFORMATION
June 30, 2004

POPULATION CHARACTERISTICS

The residents of the City are generally homeowners, have an above average education and enjoy a stable, fairly high income. The following comparative statistics were taken from 1980, 1990, and 2000 U.S. Census reports.

	<u>1980</u> <u>U. S. Census</u>	<u>1990</u> <u>U. S. Census</u>	<u>2000</u> <u>U. S. Census</u>
Age Distribution			
Percent of persons 17 years and under	19.1%	17.3%	25.2%*
Percent of persons 18-64 years old	75.0	75.5	67.0%**
Percent of persons 65 years and over	5.9	7.2	7.9
Education Levels (25 yrs. & over)			
Percent of persons who completed 4 years of high school or more	90.6%	93.9%	95.7%
Percent of persons who completed 4 years of college or more	50.2%	64.2%	69.3%
Median Family Income	\$25,202	\$50,192	\$71,293

* Persons 19 yrs. and under

**Persons 20-64 yrs. old

UTILITIES

Ann Arbor residents are supplied with electric power and natural gas by DTE Energy Company. SBC provides local telephone service. The City of Ann Arbor Water Utilities Department provides water and sewage disposal.

COMMUNITY PROFILE/INFORMATION
June 30, 2004

DEVELOPMENT

During the 2003-2004 fiscal year, several residential projects were approved, including Arbor Ridge on the west side of Pontiac Trail just south of Dhu Varren Road for 178 units/attached condominiums; 3083 Platt Road for 16 attached units; Balmoral Condominiums at the northwest corner of South Main Street and Oakbrook for 60 attached townhouse units and several other residential projects. Non-residential projects approved were Georgetown Country Club at 1365 King George Boulevard for an addition to the clubhouse/locker room; Howard Cooper Honda at 2575 State Street for a new car wash and a new dealership building; Greater Faith Christian Church at 3100 Platt Road for a new church building; Kingsley Lane at Kingsley and Ashley streets for a seven story mixed use building for retail/office; Fifth Third bank at 3315 Washtenaw Avenue to construct a one-story bank building; Huronview Offices at 121 Huronview for a three-story office building; Ann Arbor Assembly of God at 2455 Washtenaw Avenue for an addition to the existing building. One public project was reviewed: non-motorized path along west side of South Main Street at Oakwood and a bridge crossing Miller's Creek.

Source: Various City of Ann Arbor Departments and U.S. Census Bureau



REHMANN ROBSON

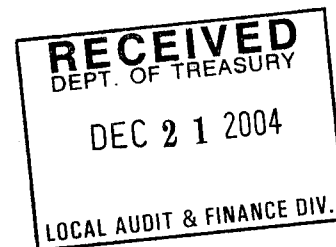
Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 22, 2004

Honorable Mayor and Members
of the City Council
City of Ann Arbor, Michigan



We have audited the basic financial statements of the *City of Ann Arbor* as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004. We did not audit the financial statements of the Ann Arbor Housing Commission component unit. Those financial statements were audited by other auditors whose report was furnished to us.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 17, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the City of Ann Arbor's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Ann Arbor's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Ann Arbor's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Ann Arbor's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Ann Arbor's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Ann Arbor are described in Note 3 to the financial statements.

We noted no transactions entered into by the City of Ann Arbor during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the liability for uninsured risks of loss, including incurred but not reported claims, which are accounted for in the City's Insurance Internal Service Fund. We relied upon the work of the City's third-party administrators and Finance Department staff for the estimated liability on reported claims and calculated the estimated liability for incurred but not reported claims based on GASB Statement 10 (as amended by GASB Statement 30 and Interpretation 4).
- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the City's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of non-infrastructure capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the City of Ann Arbor that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. In our judgment, none of the adjustments we proposed (all of which were recorded by the City), either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

We also identified certain insignificant audit adjustments, which were not corrected, as follows:

- At year-end, the Water Fund did not have an account payable recorded in the amount of \$29,539. The effect of this error was an understatement of liabilities and expense in the amount of \$29,539.
- The Sewer Fund did not have an account payable recorded in the amount of \$55,298. The effect of this error was an understatement of liabilities and expense in the amount of \$55,298.

Management has determined that the effects of the uncorrected variance are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Ann Arbor's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the information and use of management, others within the organization, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lehmann Johnson".

THE CITY OF ANN ARBOR
Comments and Recommendations
For The Year Ended June 30, 2004

During our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. A separate report dated October 22, 2004, contains our report on reportable conditions in the City's internal control structure. This memorandum does not affect our report dated October 22, 2004, on the financial statements of the City of Ann Arbor.

We will review the status of these comments during our next audit engagement. We have already discussed these matters with City management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

A. District Court Trust Accounts (Repeat Comment)

Currently, there are two trust fund accounts maintained by the Fifteenth Judicial Court in accounting for cash intake, cash payments and open trust account reconciliations. For each of the trust accounts, one signature only is required on checks for clearing depository and trust monies.

In order to enhance the internal controls in this area, we recommend that checks written bear the signature of two officials. This recommendation is also consistent with the State Court Administrative Office's "Michigan Court Administration Reference Guide" on fiscal management relating to internal controls of District Courts in the State of Michigan.

Starting in July, 2004 two check signers are now required on the depository and trusts account checks, so this issue has been effectively addressed at the beginning of the ensuing fiscal year.

B. Pensioner Verification payments Termination Controls (Repeat Comment)

The City presently uses an outside service organization to match social security numbers of retirees/beneficiaries of the City benefit payment file with Pension Benefit Information database files of those that have died and are on the SSA system.

In order to enhance the controls in this area, the Employee Retirement System should consider performing internal (or external) verifications of those receiving benefit payments by confirming the existence of the pensioner or beneficiary receiving the payment, and having the person sign and date the confirmation form to be returned and checked against information in the City pension files. Once this initial verification process is done, it can be repeated every three, four or five years.

C. Retiree Health and Life Insurance Costs Transfer

Each year, the Pension System's actuaries prepare a "PA 28 Compliance Test," which determines the maximum amount of retiree health and life insurance costs which may be paid from the retirement system assets. For the year ended June 30, 2004, approximately \$305,000 more was transferred over to the City insurance fund than the compliance test allowed.

THE CITY OF ANN ARBOR
Comments and Recommendations
For The Year Ended June 30, 2004

In October, proper adjustments were made, and the correct amount of \$6,083,674 was reflected as the amount transferred in the year-end audited financial statements. In the future, we recommend that transfers over to the Insurance fund do not exceed the maximum amount allowed based on the compliance test letter and schedule.

D. Building Department Cash Procedures

In a test of controls over the cash receipt procedures in the Building Department, we noted the following:

- In several instances, the electronic cash register total was not in agreement with the reconciliation form, nor the deposit advice to the City Treasurer. While most of these variances were not large, they did reflect differences which could not be explained by the support in the daily files.
- Voids registered on the electronic cash registers were not consistently signed off by a supervisor.
- Documentation maintained in each day's work file did not reconcile easily to the related elements on the reconciliation form.

In September, 2004, cash handling procedures were completely overhauled as part of the reorganization of the Building Department into the Planning & Development Services function under Community Services, under the direction of the Financial Manager in the Community Services Area. These policies provide for tracking and approving voided transactions, more thorough reconciliation processes, and other enhancements to the process which is expected to eliminate the occurrences of undocumented voided transactions and unbalanced deposits.

E. Water and Sewer Reconciliation and Diagnostic Processes

The Cogsdale (Aquilliam) Utility Billing System does not interface with the Advantage general ledger system. Revenues and receivables, cash collections, and billing adjustments are recorded from source documents by journal entries. We noted that at June 30, 2004, there was a significant adjustment in the amount of approximately \$184,000 to the general ledger in order for that control account to equal the detail composite detail receivable balances for water, sewer and storm receivables.

THE CITY OF ANN ARBOR
Comments and Recommendations
For The Year Ended June 30, 2004

Also, the Cogsdale System has several diagnostic (audit) reports available for use in order to determine if there are inconsistencies in the billing process. For example, the "Water no Sewer" report provides a listing of customers charged for water but had no sewer charges. Items on the listing can be checked to determine why there were no sewer charges and whether they should have a sewer connection, or if there is a legitimate reason for not being billed for sewer service (still on septic field, etc.). These reports were created in the past year and are now part of the closing process beginning in October 2004.

We recommend that the Department reconcile the utility balances to the applicable general ledger accounts on a monthly basis, and document reasons for any resulting adjustment amounts. Also we recommend that the Department run the various diagnostic reports to determine if there are any inconsistencies in the billing registers in the billing cycle as part of the monthly closing process routine.

F. DDA Accounting and Budgeting Processes

The City of Ann Arbor Downtown Development Authority is a component unit of the City of Ann Arbor, and its financial statements are included in the City's comprehensive annual financial reports. The following items were noted during the conduction of our audit for the year ended June 30, 2004:

Maintenance of general ledger

The Authority took over the general ledger maintenance from the City of Ann Arbor at January 31, 2004 for the General, Parking Operating and Housing funds. At the June 30, 2004 year end, there were several adjustments necessary to correct balance sheet accounts in those funds, with many adjustments related to certain inter-entity balances between the Authority and the City. This process was done well after the fiscal year end. We recognize that many of these adjustments were caused by the separation of the accounting records from the City.

Going forward, any adjustments to the accounts should be made currently to provide for the integrity of the internal monthly statements. The Authority should consider having a mid-year review of the financial records to ensure that the accounting processes are on track.

Budgeting process

Also, P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit of government (City, School, Township, County, Authority) shall not incur expenditures in excess of the amount appropriated. We noted that the budget was not amended from the original budget for the General, Parking Operating and Housing funds. The Parking Operating fund had expenditures that were approximately \$2,119,000 in excess of the original budget. The Act requires amending the budget by the last day of the fiscal year to avoid violations.

THE CITY OF ANN ARBOR
Comments and Recommendations
For The Year Ended June 30, 2004

We recommend that the budgets for the three governmental funds be reviewed quarterly, and formally amended as necessary, in order to be in compliance with the compiled laws of Michigan.

Accounting Policy

Additionally, we noted that the new accounting policies for the Authority provide for "all balance sheet accounts to be reconciled on a quarterly basis. We recommend that the policy be changed to provide for reconciliations on a monthly basis.

G. Fraud Policy and Communication

As part of our audit process, and consistent with the new audit standard #99 entitled "Fraud Considerations in Audit Engagements," we communicated with several randomly selected employees of the City about their knowledge of fraud within the City, and any areas that may be more susceptible to fraud. The responses were summarized and used to modify our audit programs accordingly. The feedback generated a consistent concern that there has been no policy addressing fraud and how an employee is expected to conduct business, and ramifications of committing fraud at the City. Also, there are no apparent fraud programs conducted within the City designed specifically to help prevent, deter or detect fraud.

We recommend that the City provide a fraud policy in the next update of the Administrative policies, and consider conducting periodic programs designed to help prevent fraud from occurring.

* * * * *

**CITY OF ANN ARBOR,
MICHIGAN**

SINGLE AUDIT

For the Year Ended June 30, 2004

**CITY OF ANN ARBOR, MICHIGAN
SINGLE AUDIT**

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REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 22, 2004

Honorable Mayor and Members
of the City Commission
City of Ann Arbor, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***CITY OF ANN ARBOR, MICHIGAN*** as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 22, 2004. We did not audit the financial statements of the Ann Arbor Housing Commission, which represents 35% of the assets and 32% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report was furnished to us, and our opinion, insofar as it relates to the amounts included for the Ann Arbor Housing Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the ***City of Ann Arbor, Michigan's*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the report of the other auditors disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Ann Arbor, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our report and the report of other auditors noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the *City of Ann Arbor, Michigan* in a separate letter dated October 22, 2004.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

October 22, 2004

Honorable Mayor and Members
of the City Commission
City of Ann Arbor, Michigan

Compliance

We have audited the compliance of the *City of Ann Arbor, Michigan* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The *City of Ann Arbor, Michigan's* major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the *City of Ann Arbor, Michigan's* management. Our responsibility is to express an opinion on the *City of Ann Arbor, Michigan's* compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *City of Ann Arbor, Michigan's* compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *City of Ann Arbor, Michigan's* compliance with those requirements.

In our opinion, the *City of Ann Arbor, Michigan* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the *City of Ann Arbor, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Ann Arbor, Michigan's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ann Arbor, Michigan* as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 22, 2004. We did not audit the financial statements of the Ann Arbor Housing Commission, which represents 35% of the assets and 32% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report was furnished to us, and our opinion, insofar as it relates to the amounts included for the Ann Arbor Housing Commission, is based solely on the report of the other auditors.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CITY OF ANN ARBOR, MICHIGAN
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Direct Program -			
Community Development Block Grant:	14.218		
Program year 2001/02		B-01-MC-26-0001	\$ 123,782
Program year 2002/03		B-02-MC-26-0001	469,572
Program year 2003/04		B-03-MC-26-0001	975,219
Total Community Development Block Grant			<u>1,568,573</u>
Direct Program -			
Home Investment Partnership Program:	14.239		
Program year 2001/02		M-01-MC-26-0201	13,597
Program year 2002/03		M-02-MC-26-0201	63,544
Program year 2003/04		M-03-MC-26-0201	247,789
Total Home Investment Partnership Program			<u>324,930</u>
Total U.S. Department of Housing and Urban Development			<u>1,893,503</u>
U.S. Department of Justice			
Passed-through the State of Michigan,			
Emergency Management Division:			
2003-2004 SHSGP Equipment Grant	16.007	n/a	87,435
2002-2003 SDPP Training Grant	16.007	n/a	4,500
2003-2004 SHSGP SAP Grant	16.007	n/a	2,140
02 State Disaster \$50K Preparedness Prog	16.007	n/a	26,343
02 State Disaster \$30K Preparedness Prog	16.007	n/a	29,999
Total Emergency Management Division			<u>150,417</u>
Passed-through the State of Michigan,			
Office of Criminal Justice - Office of			
Oriented Policing Services:			
Cops Universal Hiring	16.710	2000-CM-MX-0382	<u>13,604</u>
Passed-through Washtenaw County, Office of			
Justice Programs:			
Community policing to Combat Domestic Violence	16.588	1999-WE-VX-K007	<u>52,450</u>
Passed-through the State of Michigan,			
Department of Community Health			
Office of Drug Control Policy:	16.592		
Local Law Enforcement Block Grant		01-LB-BX-1805	12,015
Local Law Enforcement Block Grant		02-LB-BX-0847	1,211
Local Law Enforcement Block Grant		03-LB-BX-1787	10,213
Total Local Law Enforcement Block Grant			<u>23,439</u>
Total U.S. Department of Justice			<u>239,910</u>
			continued...

CITY OF ANN ARBOR, MICHIGAN
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2004

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Federal Expenditures
U.S. Department of Transportation			
Passed-through the State of Michigan, Department of Transportation			
Northeast Area Comprehensive Transportation Plan	20.UNK	HPP-0181(012)	\$ 114,263
State & Community Highway Safety	20.600	OP-03-37	<u>5,000</u>
Total U.S. Department of Transportation			<u>119,263</u>
U.S. Department of Energy			
Passed-through the State of Michigan, Department of Commerce & Industry Services:			
Transportation Technologies - Bio-Diesel	81.041	PLA-03-35	10,000
Clean Cities Assistant		PLA-04-17	13,423
Heavy Duty Chg Vehicle Project		PLA-01-41	48,734
Mich Elec Vehicle Incentive Program		PLA-01-35	5,000
Misc Clean Cities Fed II			2,891
Alt Fuel Vehicle		PLA-02-45	17,000
Natural Gas Dump Truck		PLA-02-22	<u>2,240</u>
Total U.S. Department of Energy			<u>99,288</u>
U.S. Department of E.P.A.			
Vulnerability Assessment/Drinking Water System	66.476	HS-82985901-0	<u>16,229</u>
Federal Emergency Management Agency			
Passed-through the State of Michigan, Michigan State Police:			
Assistance to Firefighter	85.554	EMW-2002-FG-19086	6,289
2002-2003 Supp Funds/EAG Grant	83.562	n/a	19,955
2002-2003 SHSGP Grant	83.552	n/a	2,963

continued...

CITY OF ANN ARBOR, MICHIGAN
Schedule of Expenditures of Federal Awards (Concluded)
For the Year Ended June 30, 2004

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Federal Expenditures
Federal Emergency Management Agency			
Passed-through the State of Michigan,			
Michigan State Police (continued):			
2003 SHSGP Part II Training Grant	97.004	n/a	\$ 5,751
2003-2004 MSP/EMD Fema Public Assistance	83.562	n/a	24,689
2003-2004 MSP/EMP SHSGP Grant	97.042	n/a	18,157
2003-2004 MSP/EMD Fema Public Assistance	83.562	n/a	<u>8,556</u>
Total Emergency Management Agency			<u>86,360</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,454,553</u></u>

CITY OF ANN ARBOR, MICHIGAN

Notes To Schedule Of Expenditures Of Federal Awards

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Ann Arbor, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The City of Ann Arbor reporting entity is defined in Note I of the City's financial statements.

The City administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the City of Ann Arbor reporting entity. Of the federal expenditures presented in the schedule, the City of Ann Arbor provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 831,423
Home Investment Partnership Program	14.239	<u>229,274</u>
Total		<u>\$ 1,060,697</u>

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note 3 of the City's financial statements.

3. LOANS

The value of non-cash assistance expended was zero. Loans outstanding at year end were \$1,109,135. There were no loan guarantees in effect for the year ended June 30, 2004.

* * * * *

CITY OF ANN ARBOR, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

CITY OF ANN ARBOR, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2004

SECTION I – SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	HOME Investment Partnerships Program

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – PRIOR YEAR FINDINGS

None.

* * * * *